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“You need to think more strategically.”

WHETHER THESE WORDS come from your boss or your board—or whether you’ve just thought them to yourself—they should serve as a wake-up call: Strategic thinking is a critical part of getting and staying ahead. That’s as true for individual contributors as it is for CEOs.

That’s because thinking strategically isn’t just about setting strategy. Done well, it means you spend time on tasks (or products or businesses) that make the biggest difference to your organization’s success. It keeps you from getting trapped in assumptions and making the wrong decisions. And it helps you to keep creating value for your organization for the long term, rather than focusing just on short-term successes.

So, what is strategic thinking exactly, and how do you get better at it? In this issue we’ve collected articles that give a clear overview of this cognitive skill, and the ones that give the most practical advice around three of its core components: seeing the big picture, outsmarting your assumptions, and aligning with your company’s strategy. These include classics like Rosabeth Moss Kanter’s “Zoom In, Zoom Out” and Clayton M. Christensen’s “Skate to Where the Money Will Be,” as well as more recent articles on how to demonstrate your strategic thinking skills and what to do when you think your company’s strategy is wrong.

While it may seem hard to find the time to think strategically, these articles all remind us that being strategic isn’t a task to be performed separately from day-to-day work; it *is* the day-to-day work of excellent leaders.

– *The Editors*

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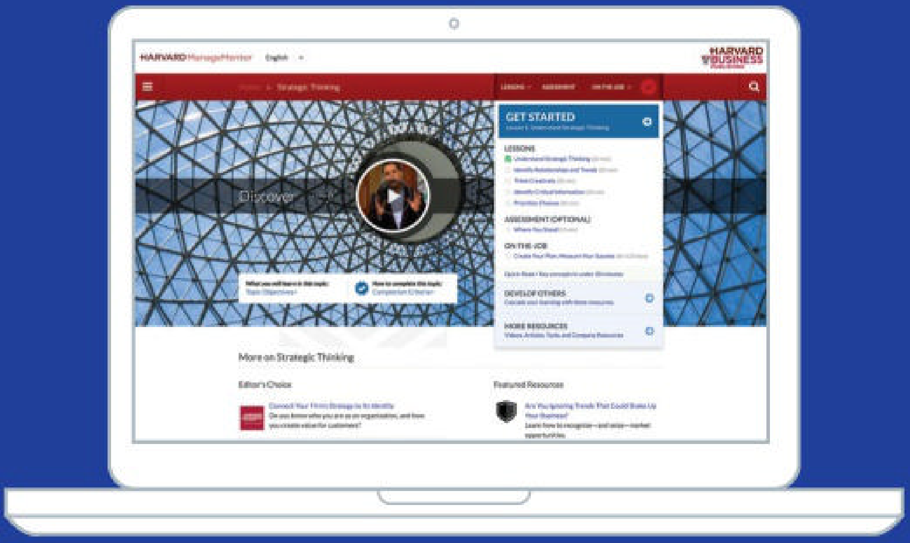

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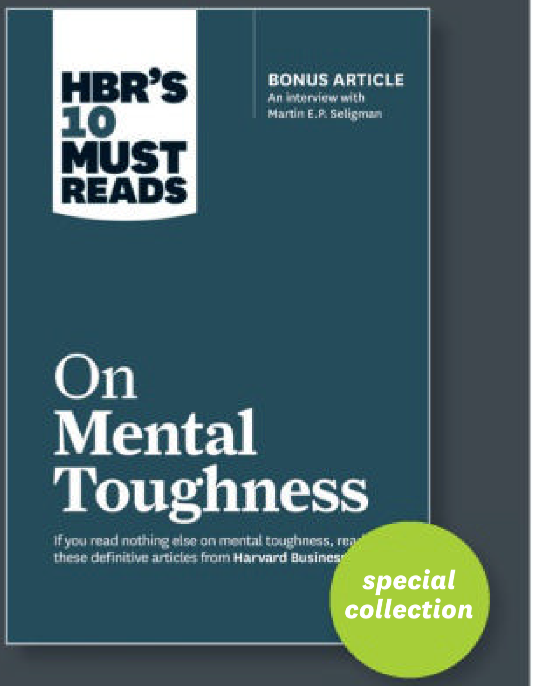
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Strategic Leadership: The Essential Skills

→ by PAUL J.H. SCHOEMAKER, STEVE KRUPP, and SAMANTHA HOWLAND

THE STORIED BRITISH BANKER and financier Nathan Rothschild noted that great fortunes are made when cannonballs fall in the harbor, not when violins play in the ballroom. Rothschild understood that the more unpredictable the environment, the greater the opportunity—if you have the leadership skills to capitalize on it. Through research at the Wharton School and at our consulting firm involving more than 20,000 executives to date, we have identified six skills that, when mastered and used in concert, allow leaders to think strategically and navigate the unknown effectively: the abilities to anticipate, challenge, interpret, decide, align, and learn. Each has received attention in the leadership literature, but usually in isolation and seldom in the special context of high stakes and deep uncertainty that can make or break both companies and careers. This article describes the six skills in detail. An adaptive strategic leader—someone who is both resolute and flexible, persistent in the face of setbacks but also able to react strategically to environmental shifts—has learned to apply all six at once.

Do you have the right networks to help you see opportunities before competitors do? Are you comfortable challenging your own and others' assumptions? Can you get a diverse group to buy in to a common vision? Do you learn from mistakes? By answering questions like these, you'll get a clear view of your abilities in each area. The self-test at this article's end (and the more detailed test available online) will help you gauge your strengths and weaknesses, address deficits, and optimize your full portfolio of leadership skills.

Let's look at each skill in turn.

Anticipate

Most organizations and leaders are poor at detecting ambiguous threats and opportunities on the periphery of their business. Coors executives, famously, were late seeing the trend toward low-carb beers. Lego management missed the electronic revolution in toys and gaming. Strategic leaders, in contrast, are constantly vigilant, honing their ability to anticipate by scanning the environment for signals of change.

We worked with a CEO named Mike who had built his reputation as a turnaround wizard in heavy manufacturing businesses. He was terrific at reacting to crises and fixing them. After he'd worked his magic in one particular crisis, Mike's company enjoyed a bump in growth, fueled in part by an up cycle. But after the cycle had peaked, demand abruptly softened, catching Mike off guard. More of the same in a down market wasn't going to work. Mike needed to consider various scenarios and gather better information from diverse sources in order to anticipate where his industry was headed.

We showed Mike and his team members how to pick up weak signals from both inside and outside the organization. They worked to develop broader

Illustration by KATE OCTOBER

networks and to take the perspective of customers, competitors, and partners. More alert to opportunities outside the core business, Mike and the team diversified their product portfolio and acquired a company in an adjacent market where demand was higher and less susceptible to boom-and-bust cycles.

To improve your ability to *anticipate:*

- Talk to your customers, suppliers, and other partners to understand their challenges.
- Conduct market research and business simulations to understand competitors' perspectives, gauge their likely reactions to new initiatives or products, and predict potential disruptive offerings.
- Use scenario planning to imagine various futures and prepare for the unexpected.
- Look at a fast-growing rival and examine actions it has taken that puzzle you.
- List customers you have lost recently and try to figure out why.
- Attend conferences and events in other industries or functions.

Challenge

Strategic thinkers question the status quo. They challenge their own and others' assumptions and encourage divergent points of view. Only after careful reflection and examination of a problem through many lenses do they take decisive action. This requires patience, courage, and an open mind.

Consider Bob, a division president in an energy company we worked with, who was set in his ways and avoided risky or messy situations. When faced with a tough problem—for example, how to consolidate business units to streamline costs—he would gather all available information and retreat alone into his office. His solutions, although well thought out, were predictable and rarely innovative. In the consolidation case he focused entirely on two similar and underperforming businesses rather than considering a bolder reorganization that would streamline activities across the entire division. When he needed outside advice, he turned to a few seasoned consultants in one trusted firm who suggested tried-and-true solutions instead of questioning basic industry assumptions.

Through coaching, we helped Bob learn how to invite different (even opposing) views to challenge his own thinking and that of his advisers. This was uncomfortable for him at first, but then he began to see that he could generate fresh solutions to stale problems and improve his strategic decision-making. For the organizational streamlining he even assigned a colleague to play devil's advocate—an approach that yielded a hybrid solution: Certain emerging market teams were allowed to keep their local HR and finance support for a transitional period while tapping the fully centralized model for IT and legal support.

To improve your ability to *challenge:*

- Focus on the root causes of a problem rather than the symptoms. Apply the "five whys" of Sakichi Toyoda, Toyota's founder. ("Product returns increased 5% this month." "Why?" "Because the product intermittently malfunctions." "Why?" And so on.)
- List long-standing assumptions about an aspect of your business ("High switching costs prevent our customers from defecting") and ask a diverse group if they hold true.
- Encourage debate by holding "safe zone" meetings where open dialogue and conflict are expected and welcomed.
- Create a rotating position for the express purpose of questioning the status quo.
- Include naysayers in a decision process to surface challenges early.
- Capture input from people not directly affected by a decision who may have a good perspective on the repercussions.

Interpret

Leaders who challenge in the right way invariably elicit complex and conflicting information. That's why the best ones are also able to interpret. Instead of reflexively seeing or hearing what you expect, you should synthesize all the input you have. You'll need to recognize patterns, push through ambiguity, and seek new insights. Finland's former president J. K. Paasikivi was fond of saying that wisdom begins by recognizing the facts and then "re-cognizing," or rethinking, them to expose their hidden implications.

Some years ago Liz, a U.S. food company CMO, was developing a marketing plan for the company's low-carb cake line. At the time, the Atkins diet was popular, and every food company had a low-carb strategy. But Liz noticed that none of the consumers she listened to was avoiding the company's snacks because he or she was on a low-carb diet.

> **Strategic thinkers question the status quo and examine problems through many lenses.**

Rather, a fast-growing segment—people with diabetes—shunned them because they contained sugar. Liz thought her company might achieve higher sales if it began to serve diabetics rather than fickle dieters. Her ability to connect the dots ultimately led to a profitable change in product mix from low-carb to sugar-free cakes.

To improve your ability to *interpret:*

- When analyzing ambiguous data, list at least three possible explanations for what you're observing and invite perspectives from diverse stakeholders.
- Force yourself to zoom in on the details and out to see the big picture.
- Actively look for missing information and evidence that disconfirms your hypothesis.
- Supplement observation with quantitative analysis.
- Step away—go for a walk, look at art, put on nontraditional music, play Ping-Pong—to promote an open mind.

Decide

In uncertain times, decision-makers may have to make tough calls with incomplete information, and often they must do so quickly. But strategic thinkers insist on multiple options at the outset and don't get prematurely locked into simplistic go/no-go choices. They don't shoot from the hip but follow a disciplined process that balances rigor with speed, considers the trade-offs involved, and takes both short- and long-term goals into account. In the end, strategic leaders must have the courage of their convictions—informed by a robust decision process.

Janet, an execution-oriented division president in a technology business, liked to make decisions quickly and keep the process simple. This worked well when the competitive landscape was familiar and the choices straightforward. Unfortunately for her, the industry was shifting rapidly as nontraditional competitors from Korea began seizing market share with lower-priced products.

Janet's instinct was to make a strategic acquisition in a low-cost geography—a yes-or-no proposition—to preserve the company's competitive pricing position and market share. As the plan's champion, she pushed for a rapid green light, but because capital was short, the CEO and the CFO resisted. Surprised by this, she gathered the principals involved in the decision and challenged them to come up with other options. The team elected to take a methodical approach and explored the possibility of a joint venture or a strategic alliance. On the basis of that analysis, Janet ultimately pursued an acquisition—but of a different company in a more strategic market.

To improve your ability to *decide:*

- Reframe binary decisions by explicitly asking your team, "What other options do we have?"
- Divide big decisions into pieces to understand component parts and better see unintended consequences.
- Tailor your decision criteria to long-term versus short-term projects.
- Let others know where you are in your decision process. Are you still seeking divergent ideas and debate, or are you moving toward closure and choice?

Idea in Brief

THE CHALLENGE

The more unpredictable the environment, the greater the opportunity—but only if you have the leadership ability to capitalize on it.

THE SKILLS

The authors have identified six skills for thinking strategically and navigating the unknown:

- **Anticipate:** look for change in the environment.
- **Challenge:** question the status quo.
- **Interpret:** synthesize input and rethink facts.
- **Decide:** use a disciplined approach to look at multiple options.
- **Align:** find common ground using active outreach.
- **Learn:** promote a culture of inquiry, and find lessons even in unsuccessful outcomes.

Research shows that you cannot compensate for a deficit in one area by being strong in another. Strategic leaders apply these skills all at once.

HOW DO YOU STAND?

A self-assessment helps you gauge your strengths and weaknesses to address deficits and maximize your leadership potential. The authors also offer ways to improve in each skill area.

Are You a Strategic Leader?

As you complete this assessment, think about the work you have done over the past year related to developing new strategies, solving business challenges, and making complex decisions. Average your scores for each of the six leadership skills and then address your weakest area first, following the recommendations described in this article.

How often do you...	RARELY						ALMOST ALWAYS
Anticipate							SURVEY AVERAGE: 4.99*
Gather information from a wide network of experts and sources both inside and outside your industry or function.	1	2	3	4	5	6	7
Predict competitors' potential moves and likely reactions to new initiatives or products.	1	2	3	4	5	6	7
Challenge							SURVEY AVERAGE: 5.52
Reframe a problem from several angles to understand root causes.	1	2	3	4	5	6	7
Seek out diverse views to see multiple sides of an issue.	1	2	3	4	5	6	7
Interpret							SURVEY AVERAGE: 5.78
Demonstrate curiosity and an open mind.	1	2	3	4	5	6	7
Test multiple working hypotheses with others before coming to conclusions.	1	2	3	4	5	6	7
Decide							SURVEY AVERAGE: 4.81
Balance long-term investment for growth with short-term pressure for results.	1	2	3	4	5	6	7
Determine trade-offs, risks, and unintended consequences for customers and other stakeholders when making decisions.	1	2	3	4	5	6	7
Align							SURVEY AVERAGE: 5.01
Assess stakeholders' tolerance and motivation for change.	1	2	3	4	5	6	7
Pinpoint and address conflicting interests among stakeholders.	1	2	3	4	5	6	7
Learn							SURVEY AVERAGE: 4.95
Communicate stories about success and failure to promote institutional learning.	1	2	3	4	5	6	7
Course correct on the basis of disconfirming evidence, even after a decision has been made.	1	2	3	4	5	6	7

*Averages are based on responses to this survey from more than 20,000 executives.

- Determine who needs to be directly involved and who can influence the success of your decision.
- Consider pilots or experiments instead of big bets, and make staged commitments.

Align

Strategic leaders must be adept at finding common ground and achieving buy-in among stakeholders who have disparate views and agendas. This requires active outreach. Success depends on proactive communication, trust building, and frequent engagement.

One executive we worked with, a chemical company president in charge of the Chinese market, was tireless in trying to expand his business. But he had difficulty getting support from colleagues elsewhere in the world. Frustrated that they didn't share his enthusiasm for opportunities in China, he plowed forward alone, further alienating them. A survey revealed that his colleagues didn't fully understand his strategy and thus hesitated to back him.

With our help, the president turned the situation around. He began to have regular face-to-face meetings with his fellow leaders in which he detailed his growth plans and solicited feedback, participation, and differing points of view. Gradually they began to see the benefits for their own functions and lines of business. With greater collaboration, sales increased, and the president came to see his colleagues as strategic partners rather than obstacles.

To improve your ability to *align:*

- Communicate early and often to combat the two most common complaints in organizations: "No one ever asked me" and "No one ever told me."
- Identify key internal and external stakeholders, mapping their positions on your initiative and pinpointing any misalignment of interests. Look for hidden agendas and coalitions.
- Use structured and facilitated conversations to expose areas of misunderstanding or resistance.
- Reach out to resisters directly to understand their concerns and then address them.
- Be vigilant in monitoring stakeholders' positions during the rollout of your initiative or strategy.
- Recognize and otherwise reward colleagues who support team alignment.

Learn

Strategic leaders are the focal point for organizational learning. They promote a culture of inquiry, and they search for the lessons in both successful and unsuccessful outcomes. They study failures—their own and their teams'—in an open, constructive way to find the hidden lessons.

A team of 40 senior leaders from a pharmaceutical company, including the CEO, took our Strategic Aptitude Self-Assessment and discovered that learning was their weakest collective area of leadership. At all levels of the company, it emerged, the tendency was to punish rather than learn from mistakes, which meant that leaders often went to great lengths to cover up their own.

The CEO realized that the culture had to change if the company was to become more innovative. Under his leadership, the team launched three initiatives: (1) a program to publicize stories about projects that initially failed but ultimately led to creative solutions; (2) a program to engage cross-divisional teams in novel experiments to solve customer problems—and then report the results regardless of outcome; (3) an innovation tournament to generate new ideas from across the organization. Meanwhile, the CEO himself became more open in acknowledging his missteps. For example, he described to a group of high potentials how his delay in selling a stalled legacy business unit had prevented the enterprise from acquiring a diagnostics company that would have expanded its market share. The lesson, he explained, was that he should more readily cut losses on underperforming investments. In time the company culture shifted toward more shared learning and bolder innovation.

To improve your ability to *learn:*

- Institute after-action reviews, document lessons learned from major decisions or milestones (including the termination of a failing project), and broadly communicate the resulting insights.
- Reward managers who try something laudable but fail in terms of outcomes.
- Conduct annual learning audits to see where decisions and team interactions may have fallen short.
- Identify initiatives that are not producing as expected and examine the root causes.
- Create a culture in which inquiry is valued and mistakes are viewed as learning opportunities.

BECOMING A STRATEGIC leader means identifying weaknesses in the six skills discussed above and correcting them. Our research shows that strength in one skill cannot easily compensate for a deficit in another, so it is important to methodically optimize all six abilities. The "Are You A Strategic Leader" test on the previous page—a short version of our Strategic Aptitude Assessment—can help reveal which areas require attention. To clarify and apply the results, ask colleagues—or at least your manager—to review and comment on your answers.

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Quick Takes

JUAN DÍAZ-FAES

1. Being a Strategic Leader Is About Asking the Right Questions

→ by LISA LAI

IF YOU ASKED the world's most successful business leaders what it means to "be strategic," how many different answers do you think you'd get? Consider this number: 115,800,000. It's the number of unique links returned when I searched online for "strategic leadership."

There's a good reason for all those links: Strategy is complex. Thought leaders from all over the world have created sophisticated frameworks designed to help leaders grapple with their own strategies at an abstract level. But the reality is that strategy succeeds or fails on the basis of how well leaders at every level of an organization integrate strategic thinking into day-to-day operations. This is less about complexity and more about practical focus.

How can you personally be more strategic as a leader? Ask yourself and your team the five questions below to drive clarity, alignment, and insight. The questions build on one another, leading to a well-aligned strategic perspective. If you make these five questions part of your ongoing dialogue, you will inevitably become more strategic and more successful as a team.

1. What are we doing today? Leaders are often surprised at just how much they don't know about what team members are working on. Here's why: Over time, organizations add more and more to the plates of various teams and employees. While leaders and team members talk at

Never underestimate the power of examining how well your work aligns with the broader goals of the organization.

length about new initiatives and assignments, they focus less on legacy work that's still being done. At some point leaders lose sight of just how much time people are investing in legacy priorities. Asking this question almost always brings to light significant work that managers aren't aware is being done or that's taking much more time than it should. You can't move your team forward strategically without knowing the answer to this question with total clarity.

2. Why are we doing the work we're doing? Why now? Once you've taken stock of all the work being done by your team, the next logical step is to examine the importance of the work being done. This serves two strategic purposes. First, you gain clarity on what's important and why it's important from your team's perspective. You'll most likely uncover situations where you and your team are uncertain or disagree. This drives important conversations with your team about choices, resources, and trade-offs. Second, you have the opportunity to attach value and meaning to the work being done by your team. Everyone wants to believe that the work they do matters. It's your job to understand and articulate that with your own team and across the organization. The only way you get there is with scrutiny.

3. How does what we're doing today align with the bigger picture? Never underestimate the power of gaining total clarity about your own area of responsibility and then examining how well your work aligns with the broader goals of the organization. This is a discussion about gaps and outliers. If your team is working on something that doesn't align with the organization's purpose or goals, you have a responsibility to challenge the value of doing that work, even if your team believes the work is important or meaningful. Does it bring value to your customers? Does it contribute to the business's highest priorities? Work that benefits both your customers and your business should be the top priority. If you identify gaps not currently being addressed, more strategic discussion is needed. Are you doing exactly, and only, what most benefits your organization?

4. What does success look like for our team? Chances are you have a handful of measures that others use to evaluate your success. Do they tell the story of what success really looks like for your team? If you asked your team what success looks like for them individually and for the team overall, could they articulate an answer? The best strategic thinkers invest time here—not in trying to pacify their boss with a few measures that can readily be achieved but in trying to understand what really drives success in terms of activities, behaviors, relationships, and strategic outcomes. The better you can align your team around a strong vision of success, the more likely you are to achieve it.

5. What else could we do to achieve more, better, faster? Most leaders want to demonstrate their ability to "be strategic" by jumping directly to this question. If you haven't done the work to answer the preceding questions, it almost doesn't matter what you come up with here, because you may or may not be able to act on it. But if you answer the preceding questions, you are well positioned to be strategic in answering this one. You may identify new and better ways to serve the broader goals of your company. You may choose to redirect resources from current work that matters less in relative importance when compared with other new possibilities. This question is the most important of the five. Every great leader needs to challenge their team to do more, better, or faster over time. It is, however, inextricably linked to the previous questions if you want to generate the best strategic insights.

The bottom line: Being a strategic leader is about asking the right questions and driving the right dialogue with your team. In doing so, you raise the team's collective ability to be strategic. The more competent you become in asking these questions, the better positioned you are to drive progress for your team and your organization.

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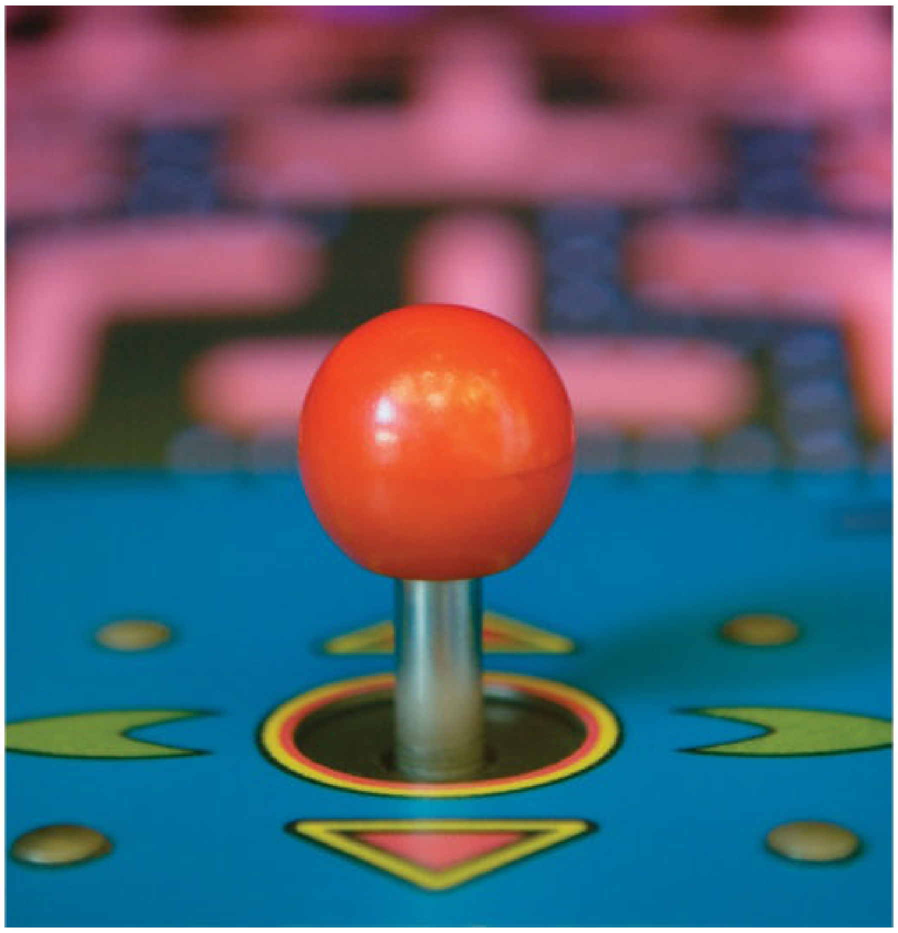

2. Four Ways to Improve Your Strategic Thinking Skills

→ by NINA A. BOWMAN

IF YOU'VE EVER received feedback that you "need to be more strategic," you know how frustrating it can feel. To add insult to injury, the feedback rarely comes with any concrete guidance on what to do about it. One of my coaching clients, Lisa, a vice president of HR, was in this situation and explains, "I was just told to think bigger picture and to be more strategic. It felt like I had been given the definition of a word by using the same word. It just wasn't helpful."

So, what specific steps *can* you take to be more strategic in your current role?

Start by changing your mindset. If you believe that strategic thinking is only for senior executives, think again. It can, and must, happen at every level of the organization. It's one of those unwritten parts of all job descriptions. Ignore this fact and you risk getting passed over for a promotion or having your budget cut because your department's strategic contribution is unclear.

Once you've accepted that it's part of your job, focus on developing four key abilities that demonstrate your strategic prowess.

Know

Observe and Seek Trends

Lisa wasn't seeing the big picture. Because of the amount of work she had and the pace at which she needed to get it done, she often took a heads-down approach to her job and failed to "lift up" and observe both internal and external trends. She was missing key information that could help her focus, prioritize, and be proactive in addressing talent issues for her fast-growing company. Because Lisa approached her job in a transactional manner—simply getting the next hire—she didn't recognize that she needed a completely new approach to recruitment and retention.

To be strategic, you need a solid understanding of the industry context, trends, and business drivers. An intellectual appreciation of the importance of bringing in current data and seeking trends isn't enough. You also have to:

- Routinely explore and synthesize the internal trends in your day-to-day work. For example, pay attention to the issues that get raised over and over in your organization and synthesize the common obstacles your colleagues face.
- Be proactive about connecting with peers both in your organization and in your industry to understand their observations of the marketplace. Then, share your findings across your network.
- Understand the unique information and perspective that your function provides and define its impact on the corporate-level strategy.

Think

Ask the Tough Questions

With a fresh understanding of trends and issues, you can practice using strategic thinking by asking yourself, How do I broaden what I consider? Questions are the language of strategy. Lisa came to appreciate that her life and prior experi-

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> **Strategic thinkers challenge the status quo and get people talking about underlying assumptions.**

ence gave her a unique yet myopic strategic lens. So, she pushed herself to ramp up her perspective-taking and inquiry skills. By becoming more curious, and looking at information from different points of view, she was able to reduce her myopia and see different possibilities, approaches, and potential outcomes.

For example, while working on an employee retention project, she asked herself, What does success look like in year one? What does it look like in year three? What could impact the outcome in a negative way? What are the early signs of success/failure? What do business partners need to understand to ensure the project's success? Do the outcomes support the broader goals of the organization? By asking these tough questions first, she recognized that she could better engage with colleagues and senior executives early on in ways that would benefit the project—and would help shape the perception that she was thoughtful and strategic.

Speak

Sound Strategic

Strategic thinkers also know how to speak the language. They prioritize and sequence their thoughts. They structure their verbal and written communication in a way that helps their audience focus on their core message. They challenge the status quo and get people talking about underlying assumptions. Those who are really skilled walk people through the process of identifying issues, shaping common understanding, and framing strategic choices.

If this sounds complex, that's because it is. But there are ways you can start honing these skills:

- Add more structure to your written and verbal communication. Group and logically order your main points. Keep things as succinct as possible.
- Prime your audience by giving them a heads-up on the overarching topics you want to address so that they are prepared to engage in a higher-level conversation, not just the tactical details.
- Practice giving the answer first, instead of building up to your main point.

Lisa didn't realize that the way she spoke created the perception that she was not strategic. She set about changing that, first by focusing her one-on-ones with her chief human resources officer (CHRO) on higher-level discussions and leaving tactical issues to email. She chose one or two strategic areas to concentrate on and framed issues in the context of the CHRO's and the CEO's top priorities.

Act

Make Time for Thinking and Embrace Conflict

In the early phase of our work together, Lisa kept a jam-packed schedule, running from meeting to meeting. She found it difficult to contribute strategically without having the time to reflect on the issues and ponder options. Recognizing that she was not bringing her full value to the table, she started to evaluate her tasks on the basis of urgency and importance as outlined in Stephen Covey's 2 x 2 matrix. She stopped going to meetings she didn't need to be at. She blocked out thinking time on her calendar and honored it, just as she would for other meetings. And she fought back the initial guilt of "Am I doing real work when I'm just sitting at my desk thinking?"

Lisa also practiced other key skills. She learned to embrace debate and invite challenge, without letting it get personal, so that she could ask tough questions. To do this, she focused on issues, not people, and used neutral peers to challenge her thinking. To manage the inevitable ambiguity that arises when one asks more questions, Lisa also learned to clarify her decision-making criteria, allowing her to better act in the face of imperfect information.

The quest to build your strategic skills can be uncomfortable. At first, you might feel like you're kicking up sand in an ocean. Your vision will be blurred as you manage the unsettling feelings that come with challenging your own assumptions and gaining comfort with conflict and curiosity. Once the dust settles, however, and you can contribute at a higher level, you'll be glad you took the risk.

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ANDY RYAN/GETTY IMAGES

3. Make Strategic Thinking Part of Your Job

→ by RON CARUCCI

IT'S A COMMON complaint among top executives: "I'm spending all my time managing trivial and tactical problems, and I don't have time to get to the big-picture stuff." And yet, when I ask my executive clients, "If I cleared your calendar for an entire day to free you up to be 'more strategic,' what would you actually do?," most have no idea. I often get a shrug and a blank stare in response. Some people assume that thinking strategically is a function of thinking "big thoughts" or reading scholarly research on business trends. Others assume that watching TED talks or lectures by futurists will help them think more strategically.

How can we implement strategic thinking if we're not even sure what it looks like?

In our 10-year longitudinal study of over 2,700 newly appointed executives, 67% of them said they struggled with letting go of work from previous roles. More than half (58%) said they were expected to know details about work and projects they believed were beneath their level, and more than half also felt they were involved in decisions that those below them should be making. This suggests that the problem of too little strategic leadership may be as much a function of doing as of thinking.

Rich Horwath, CEO of the Strategic Thinking Institute, found in his research that 44% of managers spent most of their time firefighting in cultures that rewarded reactivity and discouraged thoughtfulness. Nearly all leaders (96%) claimed they lacked time for strategic thinking—again, because they were too busy putting out fires. Both issues appear to be symptoms masking a fundamental issue. In my experience helping executives succeed at the top companies, the best content for great strategic thinking comes right from one's own job.

Here are three practical ways I've helped executives

Strategic insight is as much a social capability as it is an intellectual one.

shift their roles to assume the appropriate strategic focus that their jobs require.

Identify the strategic requirements of your job. One chief operating officer I worked with was appointed to her newly created role with the expressed purpose of integrating two supply chain organizations resulting from an acquisition. Having risen through the supply chain ranks, she spent most of her time reacting to operational missteps and customer complaints. Her adept problem-solving skills had trained the organization to look to her for quick decisions to resolve issues. I asked her, "What's the most important thing your CEO and board want you to accomplish in this role?" She answered readily, "To take out duplicate costs from redundant work and to get the organization on one technology platform to manage our supply chain." Her succinct clarity surprised even her, though she quickly realized how little she was engaged in activities that would reach that outcome. We broke the mandate into four focus areas for her organization, realigned her team to include leaders from both organizations, and ensured all meetings and decisions she was involved in directly connected to her mandate.

Unfortunately, for many executives, the connection between their role and the strategic contribution they should make is not so obvious. As quoted in Horwath's study, Harvard Business School professor David Collis says, "It's a dirty little secret: Most executives cannot articulate the objective, scope, and advantage of their business in a simple statement. If they can't, neither can anyone else." He also cites Roger Martin's research, which found that 43% of managers cannot state their own strategy. Executives with less clarity must work harder to etch out the line of sight between their role and its impact on the organization's direction. In some cases, shedding the collection of bad habits that have consumed how they embody their role will be their greatest challenge to embodying strategic thinking.

Uncover patterns to focus resource investments. Once a clear line of sight is drawn to a leader's strategic contribution, resources must be aligned to focus on that contribution. For many new executives, the large pile of resources they now get to direct has far greater consequence than anything they've allocated before. Aligning budgets and bodies around a unified direction is much harder when there's more of them, especially when reactionary decision-making has become the norm. Too often, immediate crises cause executives to whiplash people and money.

This is a common symptom of missing insights. Without a sound fact and insight base on which to prioritize resources, squeaky wheels get all the grease. Great strategic executives know how to use data to generate new insights about how they and their industries make money. Examining patterns of performance over time—financial, operational, customer, and competitive data—will reveal critical foresight about future opportunities and risks.

For some, the word *insight* may conjure up notions of breakthrough ideas or aha moments. But studying basic patterns within available data gives simple insights that pinpoint what truly sets a company apart. In the case of the supply chain executive above, rather than a blanket cost reduction, she uncovered patterns within her data that identified and protected the most competitive work of her organization: getting products to customers on time and accurately. She isolated those activities from work that added little value or were redundant, which is where she focused her cost-cutting efforts. She was able to dramatically reduce costs while improving the customer's experience.

Such focus helps leaders allocate money and people with confidence. They know they are working on the right things without reacting to impulsive ideas or distracting minutia.

Invite dissent to build others' commitment. Strategic insight is as much a social capability as it is an intellectual one. No executive's strategic brilliance will ever be acted upon alone. An executive needs those they lead to translate strategic insights into choices that drive results. For people to commit to carrying out an executive's strategic thinking, they have to both understand and believe in it.

That's far more difficult than it sounds. One study found that only 14% of people understood their company's strategy and only 24% felt the strategy was linked to their individual accountabilities. Most executives mistakenly assume that repeated explanations through dense PowerPoint presentations are what increases understanding and ownership of strategy.

To the contrary, people's depth of commitment increases when they, not their leader, are talking. One executive I work with habitually takes his strategic insights to his team and intentionally asks for dueling fact bases to both support and refute his thinking. As the debate unfolds, flawed assumptions are surfaced and replaced with shared understanding, ideas are refined, and ownership for success spreads.

Sound strategic thinking doesn't have to remain an abstract mystery only a few are able to realize. Despite the common complaint, it's not the result of making time for it. Executives must extract themselves from day-to-day problems and do the work that aligns their job with the company's strategy. They need to be armed with insights that predict where best to focus resources. And they need to build a coalition of support by inviting those who must execute to disagree with and improve their strategic thinking. Taking these three practical steps will raise the altitude of executives to the appropriate strategic work of the future, freeing those they lead to direct the operational activities of today.

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DANIEL DAY/GETTY IMAGES

4. How to Demonstrate Your Strategic Thinking Skills

→ by NINA A. BOWMAN

WE ALL KNOW that developing strategic thinking skills is important, but many don't realize how critical it is to your career advancement to *show* these skills to your boss and other senior leaders. Showing strategic thinking skills tells your boss that you can think for yourself and make decisions that position the organization for the future. It assures them that you aren't deciding things in a vacuum but are considering how other departments might be affected or how the outside world will respond.

When I'm helping my coaching clients learn to think more strategically, I emphasize that developing and demonstrating these skills are very different challenges.

- *Developing* great strategic thinking skills requires you to gain exposure to strategic roles, synthesize broad information, participate

> **Demonstrating strategic thinking requires that you are simultaneously a marketer, a salesperson, and a change agent.**

in a culture of curiosity, and gather experiences that allow you to identify patterns and connect the dots in novel ways. That's why high-potential and leadership development programs often include job rotations, cross-functional projects, and face time with senior leadership—these all accelerate the development of strategic thinking.

- *Demonstrating* strategic thinking, on the other hand, requires that you are simultaneously a marketer, a salesperson, and a change agent. Proactive and widespread communication of your strategic efforts, combined with the courage to challenge others and initiate and drive your strategic ideas, are what make your boss and peers take notice.

The case of one of my coaching clients illustrates the steps you need to take to show off your strategic thinking skills. Tim Waters (not his real name), vice president of the U.S. supply chain for a growing medical products company, hoped to be named the global senior vice president of supply chain but sensed that his promotion discussions were stalled. Tim had a good reputation for responding to business unit leads, and he worked tirelessly and effectively to keep the supply chain functioning well. He was therefore surprised to receive informal feedback from the head of HR, a longtime colleague and friend, who said that a few influential executives had voiced concern that Tim "wasn't strategic enough." These executives felt Tim was good at keeping the trains running, but he had not driven proactive change in the organization or set a strategic vision for the supply chain. Tim *was* a strong strategic thinker, but he wasn't doing it in a way his bosses could see it. He decided to engage an executive coach to help him learn how to demonstrate these skills.

Bring a Point of View to the Table

Your leaders want to know what you think, and they view your worthiness for promotion through the lens of how ready you are to make bigger decisions. By asking yourself, Do people know where I stand?, you can sharpen your ability to demonstrate this skill.

Tim made efforts to update his understanding of trends and refresh his network but realized that he wasn't putting that knowledge to good use. One of the first changes he made was to instruct his assistant to block out 30 minutes on his calendar before important meetings. He knew that barely having time to collect his thoughts before going into meetings made him unprepared, less vocal, and less capable of synthesizing and sharing his knowledge. Just a half hour, once or twice a week, would allow him to shape his point of view on important issues.

Tim's efforts began to pay off over time, and he was able to shift his contributions in senior executive meetings from operational input to strategic input. He took time to package his ideas into a vision for the organization and engaged his peers in new discussions about how the vision could impact their areas.

Show That You Think Strategically About Hiring and Talent Development

Demonstrating that you think strategically about hiring and talent development is a surefire way to make your leaders notice you.

Show that you can initiate innovation and bring strategic change. To be viewed as a strategic thinker, you must also demonstrate that you can use your knowledge to put new ideas into action. No matter your level, you can demonstrate strategic thinking by executing an innovative project that shows that your understanding extends beyond your current function.

Having greater clarity of vision enhanced Tim's effectiveness as a supervisor. Tim was able to see how his team was missing the specific skills needed to support the vision. Now, instead of having reactive discussions with his HR business partner, he engaged in forward-looking discussions about strategic hiring and leadership development opportunities for his team.

Tim also channeled the new energy and vision he had gained into a strategic-planning process that culminated in formal recommendations for the supply chain group. He communicated the project and its milestones across the organization, allowing the executive team to see that he could lead a strategic initiative; previously, Tim would have kept it behind the scenes. Boldly suggesting value-added changes was a welcome shift for both Tim and his colleagues. Tim felt he had more control, projecting greater confidence because he was no longer just reacting to others' suggestions and issues, and Tim's colleagues also appreciated that he was initiating improvements without their prodding.

Tim's journey to demonstrating strategic thinking took him longer than he had expected, but over time, his boss, peers, and team noticed the changes and viewed them positively. Tim was promoted to the global role a year later and was ultimately better equipped to navigate the role.

Adapted from the HBR Guide to Thinking Strategically

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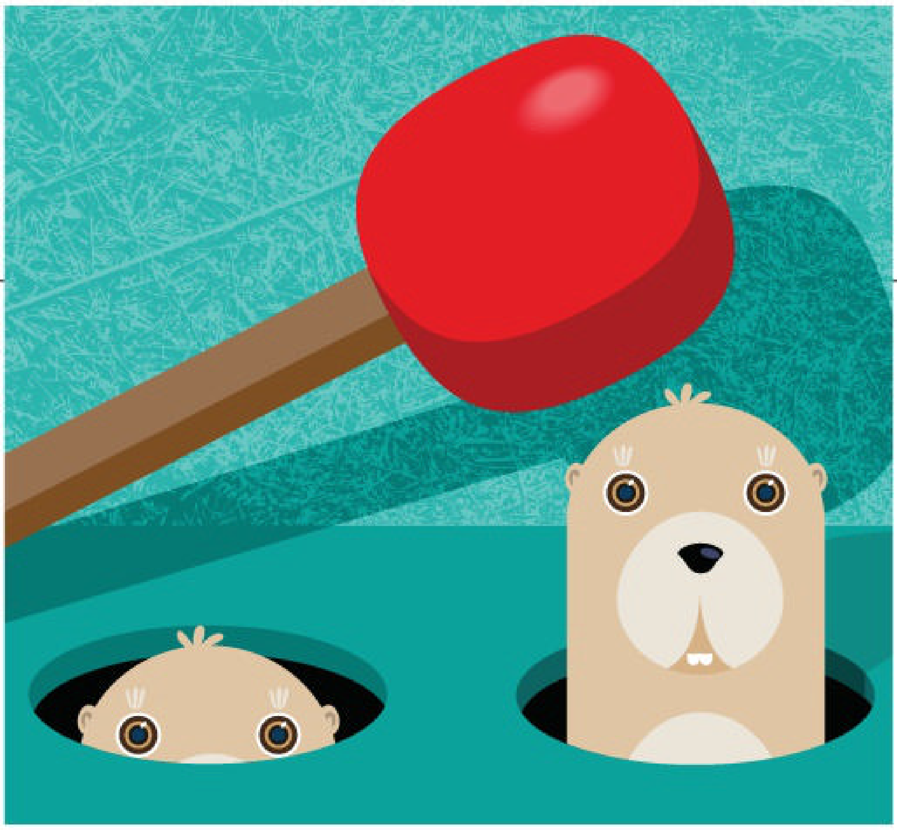

PLANET FLEM/GETTY IMAGES

5. Six Ways to Screen Job Candidates for Strategic Thinking

→ by JOHN SULLIVAN

EVERY ORGANIZATION needs strategic thinkers. In a 2013 Management Research Group survey, when executives were asked to select the leadership behaviors that were most critical to their organization's future success, 97% of the time they chose being strategic.

This is because people who can think strategically add value in four ways. First, by being forward-looking, they help ensure that an organization is fully prepared for a difficult-to-predict future. Second, their big-picture perspective helps a firm avoid major problems and conflicts by connecting the dots and seeing the interrelationships between business elements. Third, their external focus keeps everyone aware of emerging trends in the economy and the industry. And fourth, they have a global perspective.

Unfortunately, assessing whether a candidate is a strategic thinker is far from easy. If you ask, most people tell you that they are one, and most assessments give you false positives. The job interview is often the best opportunity to accurately separate out people who have this relatively rare talent from the high volume of candidates who have only tactical capabilities.

Don't rely on your job applicant to tell you whether they are strategic. Instead, use one of these six interview approaches.

1. Give them a real problem to solve. This is the most effective approach by far. Provide promising candidates a problem to solve during the interview. You can use a real unsolved problem, which has the advantage of providing you with several potential solutions. Or you can use a problem that you've already solved, which means you'll know the critical steps that should be included in an answer. With either option, you should verbally describe the problem or provide a written description, give the candidate a few minutes to think, and then ask them to walk you through the steps they would take to investigate and resolve the problem.

What you should look for in a response will vary according to the particular problem you've asked them to solve, but these essential steps should be included in every answer:

- Compile a list of potential problems.

- Check the strategic plan.
- Review company and industry multiyear forecasts.
- Identify and track key industry and economic environmental factors.
- Identify and consult with key stakeholders across departments and business units.

Depending on the question, you may also look for these steps in their answer:

- Identify interconnected and interdependent functional areas, including predictive metrics.
- Pretest solutions with your customers.
- Measure success after implementation and use data to make adjustments.

In most cases, omitting a critical step such as checking with the customer would be a clear knockout factor for any candidate.

In addition to assessing the individual steps, you should also look out for an answer that includes too many tactical steps and not enough of a strategic focus.

2. Ask them to review a flawed strategic plan and identify potential problems. A second tactic is to provide an early draft of your organization's or department's current strategic plan and ask candidates to identify any significant flaws or omissions. Since you already know the problems that occurred, it should be relatively easy to evaluate a candidate's ability to identify potential issues. If the individual can't find a significant percentage of what you know to be the flaws and omissions, it's unlikely they are a strategic thinker.

3. Ask specific interview questions. Several questions can reveal whether a candidate has strategic thinking skills:

- How would you go about connecting the dots and identifying the interrelationships and interdependencies in a proposed strategic plan?
- When you are working on a strategic project in your current job, how do you go about identifying the relevant stakeholders across the firm?
- What steps have you taken during your career to become a more strategic thinker? What measures or indicators do you have for growing the skill?
- What steps would you take to identify which job candidates are strategic thinkers? (The answer here is helpful in two ways. It will both give you ideas to improve your assessment and provide insight into the candidate's depth of understanding on the topic and how they describe themselves against that criteria.)

4. Look for strategic phrases within the answers to your standard interview questions. Few strategic thinkers actually label themselves with that description, but fortunately many other words and phrases can indicate the skill: "strategic goals," "multiyear," "cross-functional," "increasing profitability and margins," "connecting the dots," "data-driven decisions," and "root cause analysis." Individuals who routinely quantify their results in dollars or revenue impacts are highly likely to be strategic. After a candidate uses one of these phrases, the interviewer can ask them to define the phrase and explain its importance. This will help distinguish interviewees who are using catchphrases to impress you from those who truly understand these words and phrases.

5. Ask questions that reveal how much they value strategic thinking. If you ask a candidate to list their capabilities from most to least important, you can get an understanding of how important they think strategic capabilities are. Alternatively, you can ask them to list a few ideal or dream projects they'd like to work on in the future and then consider what percentage of those dream projects are strategic. Because strategic thinking involves continuous learning, you can ask candidates to name the specific learning sources they use to expand their capabilities. They should be able to immediately name resources, and you can compare those with sources your current employees use. Ask them questions about your firm's strategy, strategic products, recent strategic blunders, and strategic competitors, as well as the most strategic firms in the industry. The best candidates will have done this research in advance. If they haven't, you should pass on them.

6. Consider the questions they ask you. The right candidate will proactively ask their own questions related to strategy. You should take note of the number and quality of the strategic questions they ask, and be suspicious when a candidate doesn't ask any. For example, you should give positive points when a candidate asks a question like, "How does this job fit into the corporate strategy?" The best candidates may ask questions related to planned changes to future corporate strategy, the opportunities they'll have to contribute to strategy, and the strategic things that are happening within the department. Because the best thinkers are action-oriented, expect them to ask questions related to the implementation of ideas.

I'm often asked by executives what percentage of employees in a firm should be strategic thinkers, leaders, and innovators. My answer is always the same: You can't have too many. Unfortunately, few companies ever end up with a surplus of this exceptional talent, in part because their interview approach doesn't accurately identify them. It's time to start asking the right questions.

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NISIAN HUGHES/GETTY IMAGES

6. The Best Strategic Leaders Balance Agility and Consistency

→ by JOHN COLEMAN

AS A FORMER consultant, I have a deep and abiding love for the use of 2×2 matrices in business strategy. My favorites are those that highlight two factors that seem, at first glance, in conflict. I find these particularly relevant to personal development, as individuals often must resolve the tensions between competing values and traits and carefully monitor their own strengths so that those strengths don't lapse into weaknesses.

I've recently been thinking about this with regard to how leaders can be more strategic and able to effectively execute the core of their business while remaining open to trends in the market and adapting to meet them. I've begun to view this as the ability to hold two specific traits in balance: consistency and agility. You can picture it like this:

The best performers are, of course, consistent. Consistent leaders work hard and show up on time. They set goals for themselves and their employees, and they achieve them. They plan diligently and produce excellent products and experiences for clients time and time again. They are industrious and possess resilience and grit. Consumers expect consistent products; people appreciate consistent management.

But if organizational leaders are merely consistent, they risk rigidity. In changing environments, they can struggle to adapt and may cling to old habits and practices until those practices become counterproductive, distracting them from the more important new work that needs to be done.

On the other side of the spectrum, great leaders are agile. Markets demand that companies and people adapt and change constantly. By one analysis, 88% of companies appearing on the *Fortune* 500 list in 1955 were not on it in 2014 (having merged, gone bankrupt, or fallen off the list). As we know, buggy-whip makers and telegraph companies must evolve or die. And the most successful managers must change similarly as they assume additional or different responsibilities throughout their careers, moving from head of sales to COO or from CFO to CEO. These leaders must pivot when needed, and agility requires that they be intellectually curious, ready to learn from others, communicative, collaborative, and willing to change.

But just as consistency can become rigidity, agility can become a lack of focus when it isn't tempered by consistency. Purely agile leaders may be visionaries and change agents but lack the single-mindedness and dedication to execute their visions. They often turn to new projects before they've finished prior projects and, in extreme cases, force their teams or organizations into chaos and instability.

It's in the combination of consistency and agility that leaders can become strategic, performing an organization's purpose with excellence but changing course when the situation demands. These leaders have high quality standards, achieve goals, and expect consistency, but they are also open to change, keep an eye on the external environment, and understand when old ways of working no longer pass the test of the market in which they compete. They stay the course until it no longer makes sense and combine continuous improvement with ideation and strategy.

Of course, few individuals are equally consistent and agile, just as few people are ambidextrous. So how can leaders hold these traits in balance?

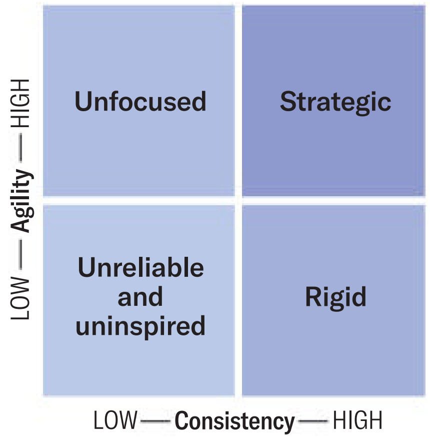
First, to paraphrase Socrates, "know thyself." Are you more prone to consistency or agility? Are you more naturally capable of deep focus or ideation? Do you thrive in periods that require relentless pursuit of a clearly defined goal or in situations of chaos and rapid change? If in doubt, ask a spouse, best friend, or close work colleague—they almost always know. Understanding and accepting our tendencies is the foundation for growth.

With that understanding in hand, surround yourself with others who complement your traits. For managers, it's wise to find a strong "number two" who can check your worst impulses and enhance your strengths. Are you an agile visionary? Find a structured, methodical, and disciplined deputy or peer. If you are a consistent operator, find a strong voice for agility on your immediate team or a mentor to push your creativity, no matter how frustrating that might be. And empower those people to speak up and challenge you.

Complement this organization model with operational process. To ensure consistency, develop strong dashboards and balanced scorecards to assure outcomes are consistently reached and continually improving. To assure agility, develop a fluid planning model that allows the organization to change outside of the formal annual planning process and create an annual strategic planning process that looks outward to the external environment and forces the organization to contemplate big ideas. As an individual, do this for yourself, perhaps as an end-of-year exercise, to make sure you're pointed toward the right goals and aspirations for where you are as a leader.

Finally, with these people and processes in place, seek to learn and grow. If you're naturally an agile thinker, you may never be the most consistent operational manager (and some research would argue against attempting it), but you can get better. And you can often do so simply by consciously observing what's working around you and then forcing yourself to learn and grow.

Strategic Leaders Must Be Agile and Consistent at the Same Time



Make note of those traits you admire in others—those that complement your own—and find ways to practice them.

As leaders, all of us will be forced to balance consistency and agility in our careers and in the organizations we serve. Are you doing so today? If not, do you understand yourself and have you thought about the people and processes around you that can help move you into greater balance?

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Zoom In, Zoom Out

The best leaders know when to focus in and when to pull back.

→ by ROSABETH MOSS KANTER

AFTER AN EXPLOSION on a BP oil platform in the Gulf of Mexico in April 2010 killed 11 people and caused the biggest oil spill in U.S. history, the company's CEO at the time, Tony Hayward, zoomed in on the implications for his career. He appeared preoccupied with the incident's impact on BP's management and, particularly, on himself. About a week after the explosion, Hayward was quoted as saying to executives in his London office, "What the hell did we do to deserve this?" Despite PR coaching, a month later he told reporters, "I'd like my life back."

Hayward, who was forced to resign in July, had numerous opportunities to acknowledge the bigger picture: the human devastation and public consternation in the Gulf region. But even though BP deployed thousands of engineers to contain

Illustration by CARMEN DEÑÓ

the spill, he could not, in public, rise above a 10-foot view; it was as though the crisis were his own personal devil. Hayward repeatedly focused on the small picture—trying, for example, to shift the blame to supplier Transocean, which had run the rig that exploded. His zoom button seemed to be stuck on the closest setting.

The lens through which leaders view the world can help or hinder their ability to make good strategic decisions, especially during crises. Zoom in, and get a close look at select details—perhaps too close to make sense of them. Zoom out, and see the big picture—but perhaps miss some subtleties and nuances.

Zoom buttons on digital devices let us examine images from many viewpoints. They also provide an apt metaphor for modes of strategic thinking. Some people prefer to see things up close, others from afar. Both perspectives—worm's-eye and bird's-eye—have virtues and pathologies. But they should be vantage points, not fixed positions. Leaders need multiple perspectives to get a complete picture. Effective leaders zoom in and zoom out.

I've come to this conclusion after more than 25 years of observing how leaders set strategic direction, interact with constituencies, and respond to unexpected events. I've worked with thousands of executives and conducted systematic studies of innovation, alliances, change, and transformation in hundreds of organizations. I've seen how organizational structures, processes, and cultures can direct the gaze of leaders close in or far out, and how levels of analysis can become default positions that limit effectiveness.

The zoom framework offers a dynamic model that can help current and aspiring leaders increase their own range of vision and establish conditions that enable others' success. In this article, I will identify the behavior and decision modes associated with zooming in and contrast them with those for zooming out. I'll consider the structures and cultures that trap people in dysfunctional default positions, and I'll conclude with ideas on developing capabilities for zooming to all levels.

Zooming In

Zooming in brings the details into sharp focus. Any opportunities look large and compelling, though they may lack some context.

A CEO I will call "John Jones"—who owns a midsize retail chain started by his father—works primarily in close-in mode. A classic entrepreneur who combines hustle with retail-is-detail know-how, Jones expanded the chain successfully from two to 30 locations by continually seeking the next prime site, merchandise item, or website tip. His discoveries came mostly through his personal connections rather than analysis. Jones disdained strategic plans and management theories. He removed a well-regarded banker from his advisory board, for instance, because the banker would ask for plans—orderly goals, with timelines—when Jones simply wanted to concentrate on specific operational ideas that were easy to implement.

Thanks to his industry knowledge, wide personal network, and intuition, zooming in served Jones well for a decade. But when the economy soured, his good instincts felt insufficient. Family members and key employees began to question his decisions. Jones had no succession plan—nobody had been groomed for the future. He made acquisitions on the basis of his own taste or just because an owner wanted to sell, and gave little thought to cost, whether the acquisition was a good fit, or what else was on the horizon. He had no broad theory about which opportunities to pursue and no industry map. Zooming in was limiting his company's growth prospects.

Close-in managers look for immediate benefits and make ad hoc decisions. They often favor one-on-one conversations over group meetings. They want to address details by doing whatever occurs to them. Faced with a problem, they look for quick fixes rather than stand back to seek underlying causes, alternatives, or long-term solutions. They prefer to contact someone they know rather than search more widely for expertise. These tendencies are exacerbated in organizations that restrict information flow, reward quick hits, and confine people to their roles.

A close-in perspective is often found in relationship-intensive settings, where human talent is the primary asset. Consider another executive, whom I'll call "Sam Lee." He ran a well-regarded professional services firm during a decade of incremental growth. Known as a benign leader, Lee could talk about strategies with external constituents, but he operated best when zooming in. He liked to confer in a clublike huddle in his office rather than discuss issues in open meetings. He

Both perspectives—worm's-eye and bird's-eye—have virtues and pathologies. But they should be vantage points, not fixed positions.

was unfailingly helpful with individual requests (including one-off favors). In other words, he liked to make exceptions instead of policies. As a result, his organization had an abundance of private deals with individual staff members (such as off-calendar budget allocations, vacation privileges, sabbaticals, and extended family leaves).

In a time of prosperity with few external threats, a personal approach may be acceptable. Toward the end of Lee's tenure, however, the firm found itself in an increasingly competitive environment with greater regulatory pressure. It was becoming untenable to treat each situation as unique. Even as policy exceptions accumulated, the logic behind these decisions remained unaddressed. Junior professionals were left to wonder and worry about the rules and fairness. Whispered concerns about favoritism ran through the corridors. The organization was running on a patronage system of personal credits and debits, with a market for favors substituting for principle-based decision-making. Morale and productivity declined, jeopardizing the company's reputation and making it harder to attract the best talent. When Lee retired, his successor immediately zoomed out, stating a few broad strategic priorities. He created clear formal policies to replace informal exceptions and began discussing them all openly in large meetings.

One of the traps of zooming in is that policies and systems are based on internal politics. Close-in people tend to talk about their personal lives, as though self-disclosure will beget the same from others, turning organizational actions into an exchange of favors based on special relationships. They often resist change because it disrupts the social equilibrium. Sometimes their personal approach is valuable, because people respond faster to individuals they know than to abstract appeals. But "do it for me" is a weak basis for corporate decisions. It also means that employees cannot easily stand in for one another, because relationships are "owned" by specific people. And it can put ego above institution.

Relying heavily on personal instinct and interpersonal deals without a wider perspective or a long-term rationale can prove perilous. An overly personal approach can also make managers quick to perceive slights, whether or not they're real. The CEO of one technology company, though known as a great strategist, still let zooming in drive some decisions. He was personally offended by how a prominent magazine had portrayed him, so the company stopped advertising there. Employees took this as a warning to tread carefully when providing him with unfavorable information. In another case, a corporate middle manager pored over emails to see whether he was being treated appropriately, and complained immediately if he perceived any suggestion of offense. His focus on status over substance cost him a higher-paying position; the plum promotion went instead to a manager with a grasp of the bigger picture.

Zooming in can obscure the big picture, leading managers to overlook important issues. Decisions become based on who you are and whom you know, not on broader goals.

Idea in Brief

THE CHALLENGE
How can leaders view the world from multiple angles in order to make good strategic decisions and avoid the pitfalls of too tight a focus or too broad a vision?

THE IDEA
Kanter describes how effective leaders zoom in and zoom out:

- Zooming in brings details into sharp focus but can obscure the big picture. Zooming out helps people see the map and stay focused on larger principles but can conceal novel situations or unique opportunities.
- Asking the right questions can help managers escape getting stuck in viewpoints too close in or too far out.
- In a crisis, the best leaders work the zoom button in both directions, addressing the immediate situation while seeking structural solutions.

THE BENEFIT
By zooming, leaders can respond to events before they become crises, embracing new opportunities while building sustainable institutions for the long run.

Are You Stuck in a Perspective That's Too Close In?

Telltale signs	Questions that will help you zoom out
You get overwhelmed by countless details	What is the context? What matters most?
You take things personally, finding the "me" angle first	What larger purpose is being served? What is at stake for others?
You trade favors, hoping others will "do it for me"	Why is the task or mission worthy of support?
You make exceptions or special deals based on particular circumstances	Will the circumstances recur? What policies or decision frameworks could be used?
You jump on any good-looking offer that pops up	Does this fit the goal or destination? What else might be on the horizon?
You treat every situation as unique	Are there other similar situations? What categories or groupings make sense?

Zooming in can also lead to turf protection. When managers use territorial language, it reveals that they have fallen into this trap. One division CFO, for instance, always used the first person when referring to budget numbers, as in "I have x dollars," even though it was the organization's money, and ignored repeated requests from other members of the executive group to stop this manner of speaking.

Personalizing is not the same thing as self-reflection—indeed, it might be the opposite. Self-reflection is a learning process that requires a distant perspective on one's own behavior, in context. An obsession with self is reinforced by zooming in, but self-awareness stems from zooming out.

Zooming Out

Zooming out is essential to big-picture decision-making. When people are far out, they can map the whole territory before taking action. They see events as examples of general patterns rather than as idiosyncratic or personal incidents. They put things in context and stress principles.

The former CEO of Garanti Bank, Akin Ongor, led it from a middle-of-the-road bank in Turkey to global prominence by setting up processes that replaced poor performers and upgraded talent. When his announcement of layoffs provoked union protests and even death threats, Ongor refused to take the attacks personally or get drawn into ad hominem battles. Instead, he went to the media and elevated the discussion to the principles behind the bank's actions. By zooming out, he helped his employees, the public, and government officials see the layoffs in the context of a transition in the economy and as a move that would save an important institution so that it could create more jobs in the future. The protests ended, and Ongor continued to lead successful change at the bank.

Zooming out helps people see the map and stay focused on larger principles. Consider Procter & Gamble CEO Robert McDonald, who rose through the ranks to head a global public company with a long-established culture. Even while seeking current profits, he constantly asks questions about what will support the sustainability of the company and keep its values intact. He can generalize about geographies and lines of business while appreciating cultural differences. He is personable but doesn't personalize issues, repeating often that he is a steward of an institution that must endure beyond him.

Zooming out is appropriate for top leaders. But it also has traps. For one thing, key stakeholders might want to see immediate results and know that the details are right before they support long-term big-picture thinking. That's why broad visions need to be matched by small wins that demonstrate feasibility. For another, leaders who like to be far out may operate so high above the fray that they don't see emerging threats and opportunities (which, ironically, is a danger for close-in leaders too) or recognize competing theories that are better able to explain new developments. Having zoomed out to examine all possible routes, they can neglect to notice the moment for action on one promising path. When zooming

Zooming out helps people see the map and stay focused on larger principles. But it also has traps.

out makes established highways look too good, leaders may fail to jump onto a side road to get around the traffic.

When the focus is on grand theory, novel situations are dismissed as too insignificant to merit attention. Leaders lose the sense that the big picture might be contingent on a set of circumstances that may well evolve. But sometimes a novelty is a signal, heralding embryonic change. The film *The Social Network* presents a fictionalized version of an iconic moment in which the Winklevoss brothers, feeling aggrieved that fellow student Mark Zuckerberg had created Facebook when he was supposedly working on their web venture, meet with the university president, a disguised version of then–Harvard president Lawrence Summers. In the movie, the president dismisses Facebook as just another undergraduate venture and tells the brothers to forget it and start another business rather than waste his time on something so trivial. Whether the incident was merely movie fiction or not, in real life that president was overly focused on important long-term plans and goals and on keeping a wide perspective on the institution. His lack of attention to interpersonal interactions eventually cost him support and his job.

Sometimes leaders need a nudge to look at details that might shake their theories. Take a chief executive I'll call "Herman Fry," who ran a science-based company that was starting to use genetic engineering in a growing product line. Fry had previously led a division to global prominence through breakthrough innovations and was known as a brilliant strategist and big-picture thinker. But when he heard rumblings against genetically modified ingredients in Europe, he initially dismissed them as local issues that didn't require scrutiny or a response. When he heard that a UK customer was being pressured about the same issue, his attention was caught—but not enough; he still said the concern was a minor blip and did not bother to look more deeply. By the time he was persuaded to gather more details, a global backlash had begun, and the company had lost the chance to reassure customers and tell its story ahead of the protests.

A preference for zooming out can make leaders appear remote and aloof. After a campaign that involved both inspiring rhetoric and street-level organizing, President Barack Obama faced severe national crises. He zoomed out to address big systemic issues, such as the financial crisis, with policies that advisers said stopped further erosion. But critics said that he failed to convince average Americans that he was addressing their problems. His supporters argued that his actions, Keynesian in nature, would show their merits in the longer run; yet as John Maynard Keynes himself pointed out, in the long run we're all dead. One of the problems with staying at the most distant end of the zoom is that the picture looks static and few routes are visible. It may appear, for instance, as though all economic highways go through the Federal Reserve and big banks. Zooming in, and monitoring the situation as it appeared to communities and families, might have helped Obama communicate that he was seeking alternatives that would reach more people directly—such as increasing small-business lending at

Are You Stuck in a Perspective That's Too Far Out?

Telltale signs	**Questions that will help you zoom in**
You dismiss deviations from plans or models as too minor to matter	Does the deviation challenge the model? How can the deviation be understood?
You veer away from dealing with specific problems in favor of focusing on general theory	What actions does your theory suggest for this particular problem?
You must have a full analysis or a big study before determining actions	Is there sufficient information to proceed in this instance? What are the costs of delay?
You always stay on major established paths	Are there side roads or shortcuts?
You pursue the mission regardless of human costs	How is this affecting the people who must carry out the mission?
You fit everything into a few general categories	What are the details that make things different? Which details matter?

We don’t have to divide the world into extremes—idiosyncratic or structural, situational or strategic, emotional or contextual—and choose one.

local banks. Instead, despite his many accomplishments, Obama’s approval ratings plummeted, and his party lost badly in the 2010 elections.

Getting Stuck

A failure to zoom can spell doom. As we have seen, problems arise when people get stuck at one end of the scale and are unable to move to the other for a different perspective.

One question is whether it’s possible to create teams that balance close-in and far-out modes. Perhaps. But if people can’t shift from the worm’s-eye or bird’s-eye level, they often talk past one another. Those zooming in want to come back to the particulars and haggle over details, frustrating those who want patterns and a strategy. Those zooming out might seem theoretical and impractical, or find that their general frameworks and principles are not understood by those who zoom in. Hardened preferences can get in the way of good decisions.

A narrow focus in either direction can lead to trained incapacity, a concept attributed to social theorist Thorstein Veblen. Regardless of their innate potential, if people spend too much time on tasks that draw on only part of their repertoire, it can make the other part atrophy. The fact that it’s difficult to balance zooming in and zooming out may explain one perceived difference between male and female managers uncovered by Insead professor Herminia Ibarra. She found that women score high on all aspects of “21st century” leadership performance (such as relationship building, collaboration, and teamwork) except vision setting. Relationships are nurtured by zooming in. Vision involves zooming out. This may derive from the pernicious stereotypical view that men should be entrusted with big-picture decisions, while women should be assigned to caretaking tasks. The very nature of caretaking requires zooming in to be attentive to details, one child or one executive at a time. Zooming in is also a necessity for those whose fate depends on being attuned to the characteristics and preferences of power holders. Traditional divisions of labor by gender encourage men to zoom out and women to zoom in, with fewer opportunities to take another perspective.

Zooming Toward Both Perspectives

The best leaders work the zoom button in both directions. Faced with a crisis, they can address the immediate situation while seeking structural solutions. They can zoom in to see problems while zooming out to look for similar situations, root causes, and principles or policies that will help prevent the crisis from recurring.

Daniel Vasella, chairman and former CEO of pharmaceutical giant Novartis, was both a psychiatrist by training—which made him able to zoom in on the emotional state of the people around him—and a strategist with a theory of industry change that guided divestitures, acquisitions, and internal restructuring. He stressed personal values as well as global trends. Indra Nooyi, PepsiCo’s CEO, blends a big-picture view of principles guiding the company, such as the need for transformation in food and beverage companies to promote improved health, with an ability to zoom in on the details of budget allocations for current business lines. Nooyi has defined new roles (such as a chief science officer) and new structures (for instance, the Global Nutrition Group, linked to central R&D) that help the previously decentralized organization both zoom out to a global perspective and zoom in on local differences.

Effective leaders encourage others to expand their zooming range. For example, P&G, like most companies in the consumer packaged goods industry, is a heavy user of large-sample survey market research, which maps territories through statistical abstractions, a form of zooming out. Though P&G’s leaders don’t disregard these data, they also send employees into the field to live with families, zooming in on their needs and experiences. The closely observed details of individual household behaviors ultimately influence P&G’s investment decisions.

The zoom function is more than a metaphor; it can be a way for people to stretch their mental capabilities by, for example, manipulating maps, comparing photos, exploring issues from various vantage points, and creating action plans that reflect learning from multiple perspectives. IBM’s Corporate Service Corps integrates both the big and the small pictures into its global leadership development programs. It sends culturally diverse teams on monthlong field assignments in unfamiliar territory. The team members get direct experience solving specific problems on the ground while gaining a broad view across countries and cultures.

The language of zooming offers an objective way to discuss differences in perspective and encourage people to move to a different level: "Let's zoom in on that problem." "Let's zoom out to put it in perspective." Zoom-based checklists can help people stop themselves from overpersonalizing, reminding them to go up a few levels to the principles involved, or from overgeneralizing, encouraging them to get more grounded in situational realities. Everyone can apply the principles of zooming to his or her own job by asking the right questions, such as whether a given action fits the overall goal or whether there is sufficient information to move forward on a particular theory. (See the sidebars "Are You Stuck in a Perspective That's Too Close In?" and "Are You Stuck in a Perspective That's Too Far Out?")

THE ZOOMING IDEA suggests that we don't have to divide the world into extremes—idiosyncratic or structural, situational or strategic, emotional or contextual. The point is not to choose one over the other but to learn to move across a continuum of perspectives. President Bill Clinton's political genius was that he could "feel your pain" while putting events into historical and international context, zooming in and out quickly in a single conversation or speech. That dynamic capability is the essence of great strategic thinking.

Zooming can help leaders respond to events before they become crises. It can help them embrace new opportunities while continuing to operate with principles that build sustainable institutions for the long run. Leaders should make room to zoom.

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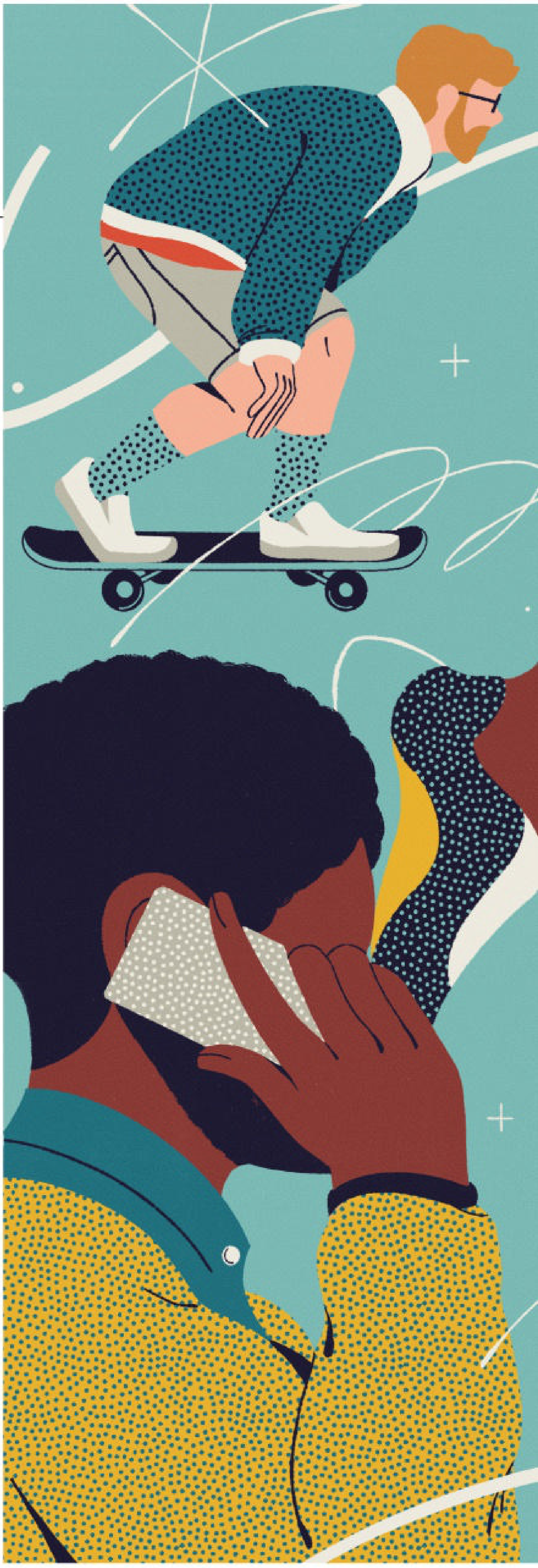
Are you Ignoring Trends That Could Shake Up Your Business?

Surprising ways the hot new thing can affect your product strategy

→ by ELIE OFEK and LUC WATHIEU



IT'S HARDLY A REVELATION that digital products and services are playing an increasingly central role in consumers' everyday lives, that the Great Recession has made people more cautious about spending money, and that growing public concern about global warming is influencing purchasing decisions. But are you paying enough attention to the deeper implications of those trends? Are you accounting for the fact that heavy users of digital products and services tend to focus more on short-term goals, demand immediate gratification, expect to multitask, and are open to exchanging ideas with people they've never met in person? Or that the prolonged recession has unleashed not a malaise but rather a desire to be uplifted and energized? Or that green consumers are skeptical of corporations that claim to share their concerns but don't motivate them to act in environmentally friendly ways?

Most managers can articulate the major trends of the day. But in the course

Illustration by **CARMEN DEÑÓ**

of conducting field and market research in a number of industries and working directly with companies, we have discovered that managers often fail to recognize the less obvious but profound ways these trends are influencing consumers' aspirations, attitudes, and behaviors. This is especially true of trends that managers view as peripheral to their core markets.

Consequently, they ignore trends in their innovation strategies, they include product features that only superficially address a trend's impact on consumers, or they adopt a wait-and-see approach and let competitors take the lead. At a minimum, such responses result in missed profit opportunities or wasteful investments in R&D. At the extreme, they can jeopardize a company by ceding to rivals the opportunity to transform the industry. The purpose of this article is twofold: to spur managers to think more expansively about how trends could engender new value propositions in their core markets, and to provide some high-level advice on how to make market research and product development organizations more adept at analyzing and exploiting trends.

The Gold in Trends

At first blush, spending a lot of resources to incorporate elements of a seemingly irrelevant trend into one's core offerings sounds like it's hardly worthwhile. But consider Nike's move to combine its reputation in high-performance athletic footwear with the iPod's meteoric success. In 2006, the company, which accounts for the largest share of running shoes sold in the United States, teamed up with Apple to launch Nike+: a digital sports kit comprising a sensor that attaches to your running shoe and a wireless receiver that connects to your iPod. As you jog and listen to your favorite music, the sensor tracks your speed and distance and the calories you've burned and transmits that information to your iPod in real time. Back at your computer, you can upload your data to nikeplus.com, which stores your information and provides a user-friendly interface that lets you track your progress.

The kit also allows you to specify a goal and check your performance during your run simply by pressing the iPod's center button. In addition, the website links to social networks like Facebook and Twitter so that you can find and form groups of runners at your level who are interested in sharing challenges and performance information. Nike is now expanding the kit to other athletic activities: It recently launched a version for gym workouts.

So far Nike+ has been a big success. More than 2.5 million kits have been sold, many of them to people who also purchased Nike shoes that have a special recess to house the sensor. Considering that the sports kits retail for about $30 and the shoes for an average of $80, this is no small change.

But the Nike+ story is about much more than the revenues generated from product and accessory sales. What is fascinating is how the new offering catapulted Nike from being relevant to just one aspect of the runner's exercise regime to being at the very center of it. For a Nike+ customer, the Nike brand is no longer about just the product attached to his or her feet; it's about the total exercise experience, including the community.

The Nike+ example represents one of three broad innovation strategies that firms can embrace to address powerful trends. They can *infuse* aspects of the trend into their existing category to *augment* their products or services. They can *combine* aspects of the trend with attributes of their category to produce radical offerings that *transcend* their traditional category and create a new one (as Nike did). Or they can *counteract* negatively perceived effects of the trend by developing products and services that *reaffirm* their category's distinctive values.

Infuse and Augment

The objective of this strategy is to design a new product or service that retains most of the attributes and functions of traditional products in the category but adds others that address the needs and desires unleashed by a major trend. Put simply, this strategy is about augmenting the existing category, not inventing a totally new one. A case in point is the Poppy line of handbags, which Coach created in response to the economic downturn.

By the time the global recession hit Coach's core North American market with full force, late in 2008, the Coach brand had been a symbol of opulence and luxury for nearly 70 years. For $300 to $350, the price of a typical Coach handbag, a woman could signal to the world that she belonged to the elite. The company's consistent execution of this value proposition (through product

Ignoring trends can give rivals the opportunity to transform the industry.

design, advertising, store layout, and location) fueled a steady rise in sales through much of the past decade. But in the summer of 2008, management had to decide how to respond to the global downturn and the resulting increase in price sensitivity.

The knee-jerk reaction would have been to lower prices on most products and perhaps shift more sales to outlet stores. However, those actions would have risked cheapening the brand's image and eroding the company's meticulously established value proposition. They would have constituted a superficial response to the downturn's likely enduring impact on consumers' expectations and perceptions.

To their credit, Coach's managers did not panic. Instead, they launched a consumer-research project, which revealed that a decreased willingness to spend money was only a small piece of a new mindset. People had not lost hope or become passive about the future because of economic woes, the gloomy financial outlook, and general uncertainty; on the contrary, they were eager to find ways to lift themselves and the country out of tough times. An attitude of "Yes, we can" had set in. Consumers' desire for status and pampering had not vanished, but the economic reality had created a new layer of needs.

Using these insights, Coach created the lower-priced Poppy line, which it launched in June 2009. The handbags, which sell for about $250, come in vibrant colors and are much more youthful and playful than traditional Coach products. The company's name appears on the bags but is written in graffiti style.

The Poppy line is off to a great start: It helped lift Coach's North American same-store sales by 3.2% in the second quarter of fiscal year 2010, the first increase since the crisis began. Creating the sub-brand allowed Coach to avoid an across-the-board price cut. In contrast to the many companies that responded to the recession by cutting the cost, features, and price of existing products, Coach saw the new consumer mindset as an opportunity for innovation and renewal.

Another example of the infuse-and-augment strategy is Tesco's response to consumers' growing concerns about the environment. Market research shows that a large proportion of consumers, especially in Europe, have become receptive to the call to save the planet. They want to do their share but are somewhat skeptical of corporations that claim to care about being green. In addition, they often believe that green consumption should lead to a simpler, more economical life.

With that in mind, Tesco, the third-largest retailer in the world, introduced its Greener Living program, which demonstrates the company's commitment to protecting the environment by involving consumers in ways that produce tangible results. For example, Tesco customers can rent company-sponsored plots for gardening and coops for raising egg-laying chickens, and can accumulate points for such activities as reusing bags, recycling cans and printer cartridges, and buying home-insulation materials. Like points earned on regular purchases, these green points can be redeemed for cash. Tesco has not abandoned its

Idea in Brief

THE CHALLENGE

Trends, including those that seem peripheral, change consumers' aspirations, attitudes, and behaviors in ways that may not be obvious. The digital revolution, for instance, has led people to value offerings that provide instant gratification and help them multitask. This is as important for a company that sells sports shoes as it is for one that sells video games.

THE STRATEGIES

Three strategies can help leaders address the impact of trends:

- **Infuse** aspects of the trend into the category to *augment* traditional offerings, as Coach did with its lower-priced, youthful Poppy handbags.
- **Combine** aspects of the trend with attributes of the category to produce radical offerings that *transcend* the category, as Nike did with its Nike+ sports kit and web service.
- **Counteract** negative effects of the trend by developing products and services that *reaffirm* the category's values, as iToys did with its ME2 video game, which encourages children to be physically active.

■■ **It takes audacity to consider that the fear of global warming might inspire new kitchenware.**

traditional retail offerings. Instead, it has augmented its business with these activities, thereby infusing its value proposition with a green streak.

Combine and Transcend

This strategy is more radical than the infuse-and-augment approach. It entails combining aspects of the product's existing value proposition with attributes that address the aspirations, attitudes, and behaviors arising from a trend to create a novel experience—one that may land the company in an entirely new market space.

By combining Nike's original value proposition for amateur athletes with one for digital consumers, the Nike+ sports kit and web interface has moved the company from a focus on athletic apparel to a new plane of engagement with its customers. Yes, shoes are still an essential component of the value proposition, and yes, Nike still caters to many of the same consumer aspirations it always has (the desire to achieve, perform, and win). But Nike+ provides an experience that is as much about managing one's goals in a personalized, efficient, interactive, and real-time fashion as it is about aspiring to be like Michael Jordan or Roger Federer.

Another company that has transcended a traditional category by tapping the digital trend is stickK.com. Americans who want to lose weight spend more than $40 billion a year on pills, diet shakes, books, and programs like Jenny Craig and Weight Watchers. But spending money is relatively easy; the challenge is remaining committed to a regimen. The same is true of programs designed to help people overcome other unhealthy habits, such as smoking and excessive drinking.

The founders of stickK.com—two Yale professors and a student at Yale's School of Management—understood not only the challenge of overcoming bad habits but also that connecting with others and sharing personal thoughts and activities on digital platforms had become the norm. The service they launched in 2008 reflects that insight.

As a user of stickK.com, you articulate a personal goal (for example, "I will shed one pound every week until I lose 20 pounds") and demonstrate your commitment to it by signing a contract. As you work toward your goal, you post regular entries, which are monitored by a friend or relative you've designated as your referee. The website allows you to create an incentive to fulfill your goal. One option is to form a network of friends who will immediately be notified by email if you violate the terms of your contract. Another is to bet on yourself: You decide on a wager and to whom the money should go if you fail to achieve a milestone. Some people designate a charity or cause that they oppose—a pro-choice or pro-life group, for example, or an institution associated with a political party, such as the Bush or Clinton presidential library. You supply your credit card information through a secure online form, and if you fail to fulfill your contract, the transaction is executed automatically.

As of the start of 2010, stickK.com had nearly 40,000 active contracts and more than $4 million in wagers. Weight loss accounts for nearly 45% of the contracts, but stickK allows individuals to specify any goal—from getting an A on an upcoming exam to "not playing online Scrabble again until the end of the year." The company has ushered in a new era of electronic accountability.

Counteract and Reaffirm

This approach involves developing products or services that emphasize the values traditionally associated with the category in ways that allow consumers to oppose—or at least temporarily escape from—the aspects of trends they view as negative. A product that accomplishes this is the ME2, a handheld video game created by Canada's iToys. By reaffirming the toy category's association with physical play, the ME2 counteracts some of the widely perceived negative impacts of digital gaming devices.

One is the unhealthy lifestyle these devices seem to engender. American fourth-grade boys spend an average of about 10 hours a week playing video and computer games. Many researchers have found that such behavior usually comes at the expense of physical activity and interactions with other children, leading to a host of medical, developmental, and social problems. For example, video games and other digital products have been blamed for contributing to the alarming growth in obesity among children, which has been linked to a sharp rise in diseases such as diabetes and high blood pressure.

The ME2, introduced by iToys in mid-2008, caters to kids' huge desire to play video games while countering the negatives. Like other handheld games, the device features a host of exciting interactive games, a full-color LCD screen, and advanced 3D graphics. What sets it apart is that it incorporates the traditional physical component of children's play: It contains a pedometer, which tracks and awards points for physical activity (walking, running, biking, skateboarding, climbing stairs). The child can use the points to enhance various virtual skills needed for the video game. The more physical activity a child engages in, the greater his or her advantage in the game.

The Current Card, a prepaid debit card for teens, is another example of the power of a counteract-and-reaffirm approach. This new financial tool is Discover's response to the challenge of parenting teenagers in an age when they have much more freedom than they used to, in part because of digital technologies. The card is also the company's attempt to counter two negative aspects of the digital revolution that can spell trouble for teens: the risk of out-of-control shopping, particularly online, and the false sense of expertise that can result from the abundance of information available on the internet. Teens, like adults, are prone to believe they know more than they actually do about many topics. For example, in a 2008 survey of teens aged 12 to 17, 79% said that they were knowledgeable about basic financial concepts—but the average score of a Federal Reserve Board test of financial literacy given to high school seniors is 48%. This false confidence, combined with the lure of online offerings, can make it very difficult for parents to instill in their children a sense of financial responsibility. Discover has stepped up to this challenge with the Current Card, which lets parents control their children's expenditures (whether online or in bricks-and-mortar stores) by specifying how the card can be used. Through a web interface, parents can track every transaction and receive email notifications if any activity breaks the rules. With this product, Discover not only gives parents a new tool for developing their teens' personal-finance savvy but also reaffirms its core business of facilitating convenient yet responsible spending.

A Four-Step Process for Addressing Trends

To tap a profound consumer trend, you'll need audacity and imagination: audacity to consider that the fight against terrorism might influence computer design, that there could be a lipstick specially suited to the digital age, that the fear of global warming might inspire new kitchenware; and imagination to conceive innovations that compellingly augment, transcend, or reaffirm your existing category. Here is a four-step process that we have successfully applied at a number of companies.

1. Identify trends that matter. The obvious first step is identifying the trends, particularly the seemingly peripheral ones, that have the potential to reshape your business. At any point, only a handful of big trends are capable of changing consumers' aspirations, attitudes, and behaviors. Our simple exercise can help you gauge whether certain forces or events constitute a trend worth leveraging. It involves analyzing the following:

New Value Propositions

Coach's Poppy Collection
Yes, the recession has made consumers more cautious about spending. But after discovering that the downturn has also unleashed a desire to be energized and inspired, Coach created its lower-priced and playful Poppy line of handbags.

Nike+
Nike's insights into how the heavy use of digital products and services was changing consumers' attitudes and behaviors led it to team up with Apple to create the Nike+ sports kit and web service—an offering that transcends Nike's traditional sports apparel category.

iToys' ME2
Canada's iToys addressed parents' concerns that video games were turning their children into couch potatoes by launching the ME2, a handheld game with a pedometer that awards superior virtual skills to kids who get physical exercise.

Ripple effects. Are changes occurring in multiple areas of a consumer's life? For instance, consider how social networks like Facebook and LinkedIn are affecting both friendships and professional relationships.

Impact. How profound are the changes in people's priorities, perceptions of their role in society, and expectations?

Scope. Does the trend encompass a large number of consumers across market segments?

Endurance. Are there indications that these changes will be a dominant force in consumer behavior for an extended period?

The concern about global warming and the environment is an example of a consumer trend that passes these tests. People try to save paper and electricity at work and at home and look for natural ingredients when deciding which foods, cosmetics, and furniture to purchase. Many firms have made green marketing tactics a priority and have appointed corporate sustainability officers. Millions have seen Al Gore's movie *An Inconvenient Truth*. The number of people who use multiple recycling bins has increased dramatically. More and more consumers now show up at supermarkets with reusable shopping bags. All these developments indicate that environmental concerns have become deeply embedded and will endure.

Identifying trends requires avoiding some common traps (see the sidebar "Why Firms Fail to Leverage Trends") and devoting resources to exploring changes occurring outside one's turf. One option is to create an internal group to do this. Nokia, for example, has an Insight and Foresight team charged with analyzing shifts in consumer tastes not necessarily related to preferences in cell-phone technologies. A firm can also hire a market research or management consulting firm that tracks trends and analyzes their effects (see "The 10 Trends You Have to Watch," HBR July–August 2009).

2. Conduct two separate explorations. The next step involves two completely distinct deep dives. The first is into the less obvious effects of the trend: What important goals, beliefs,

Why Firms Fail to Leverage Trends

Tracking trends is one thing. Making sure your product development group takes them seriously and integrates them appropriately is another. Our research has found that three traps can prevent firms from constructively engaging important consumer trends.

1. Ignoring trends that originate outside their markets. Most firms naturally think of themselves as offering products within defined categories. ("We are an athletic apparel company." "We make cosmetics." "We design luxury handbags.") This often directs innovation efforts toward customer needs that have been considered relevant in the category. Even when firms look for latent or new needs, their aim is often to uncover the shortcomings of existing products—not to come up with new offerings that incorporate consumer behavior from distant areas. The result: They miss out on opportunities presented by trends that seem peripheral. In running shoes, for example, if market research explores only consumers' attitudes about shock absorption, durability, and rapid acceleration, the company will fail to consider how digital behaviors lead to new experiences that transcend the category.

2. Responding to a trend in a superficial way. Trends are widely noticed: They are covered in the media and may directly affect a firm's employees and core customers. This can prompt R&D and marketing professionals to try to respond too quickly—before the company has developed a deep understanding of how the trend is affecting consumers. The result: ill-conceived offerings that don't speak to consumers' new needs or desires and often dilute, rather than enhance, the brand's equity. Consider the flop of Xelibri 6, a smartphone for women created by Siemens that contained two mirrors and was designed like a makeup compact—but could not actually hold makeup. The rise of digital media has prompted consumers to seek products that allow them to multitask, but Siemens didn't appreciate that people expect such products to deliver this benefit in substance, not just in form.

3. Waiting too long. Putting off action can be as risky as responding too quickly. Given the uncertainty about the relevance of a trend and the risks of incorporating it incorrectly, many firms choose to let other firms take the lead in experimenting. Their rationale is that if a competitor comes up with a significant innovation, they can follow quickly. Although a fast-follower strategy sometimes works, it holds dangers. For example, first movers often lock up valuable assets. A case in point: Nike was able to secure a partnership with Apple to cocreate Nike+, a sports kit and web service that allows runners to track their performance with their iPods and share information with others. Given the iPod's popularity among joggers, a firm that now seeks to enter the new space faces an uphill battle.

> **Identifying trends requires avoiding some common traps and devoting resources to exploring changes occurring outside one’s turf.**

and perceptions are emerging among consumers? Are people developing new assumptions about social roles and interactions? The second exploration is of consumers’ perceptions and behaviors related to your product category. Various research techniques (open-ended questionnaires, discussion groups, diaries, and interviews of lead users) can help with this analysis.

Consider the case of a beauty-care company that wants to leverage the digital lifestyle trend. A study of heavy users of digital devices might reveal that they expect information about almost anything to be readily available, seek to control and customize experiences, and love to share often mundane events with others in real time. An analysis of the beauty-care category might show that consumers see an imperfection such as a blemish or wrinkle as a weakness and want to associate with products that help them attain socially respected outcomes such as a promotion at work, a higher salary, and prestige.

In conducting this exercise, companies should also probe for undesired outcomes and deficiencies related to the trend and to the existing category. For example, being “always on” and available on social network sites generates strong ambivalent feelings: People struggle between wanting to know what their friends are up to at all times and wanting some privacy. And a consumer who buys beauty-care products often finds it difficult to obtain reliable information about which product is a good match for her skin type; as a result, she might waste money and time experimenting with multiple products.

3. Compare the results. Once you have a comprehensive understanding of the most important aspects of the consumer trend and of your product category, it is time to envision how key aspects of the trend might relate to key aspects of the consumption experiences in your category. You might discover a great deal of congruence, a disconnect, or perhaps even a latent conflict between your category and the trend you are trying to engage.

For example, a primary goal of beauty-care consumers is enhancing their self-esteem. They might turn to a product to help them look successful, gain the respect of others, and mask their physical flaws. Consumers expect cosmetics brands to deliver products that help them achieve an ideal standard of beauty (often represented by a celebrity or a supermodel) and offer skin-care products to reduce wrinkles and conceal blemishes.

Self-esteem is also a central theme in digital experiences, but it is achieved in entirely different ways in this domain than it is in beauty care. In their digital activities, individuals develop self-esteem by expressing their uniqueness and interacting with others who can appreciate their distinct profiles. Thus, while consumers in both the trend and product-category domains share the goal of self-esteem, there’s a disconnect: Beauty-care companies traditionally help them reach ideal standards of beauty, whereas digital tools enable them to cultivate unique profiles.

4. Isolate potential strategies. Once you have gained perspective on how important concepts pertaining to your category interact with vital trend-related changes in consumer attitudes and behaviors, you can determine which of our three innovation strategies to pursue. When your category’s basic value proposition continues to be meaningful for consumers influenced by the trend, the infuse-and-augment strategy will allow you to reinvigorate the category. If analysis reveals a growing disconnect between your category and consumers’ new focus, your innovations need to transcend the category to integrate the two worlds. Finally, if aspects of the category clash with undesired changes emerging from a trend, there is an opportunity to counteract those changes by reaffirming the core values of your category.

TRENDS—TECHNOLOGICAL, economic, environmental, social, or political—that affect how people perceive the world around them and shape what they expect from products and services present firms with unique opportunities for growth. But firms need to learn how to ride a trend’s wave to success. If they don’t, they risk being swept away by its powerful tide.

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Skate to Where the Money Will Be

As hockey great Wayne Gretzky used to say, the key to winning is getting first to where the puck is going next. The same could be said about succeeding in business, and a new theory of profitability could help you do just that.

→ by CLAYTON M. CHRISTENSEN, MICHAEL E. RAYNOR, and MATTHEW VERLINDEN

WHEN IBM DECIDED to outsource its operating system and processor chips in the early 1980s, it was, or appeared to be, at the top of its game. It owned 70% of the entire mainframe market, controlled 95% of its profits, and had long dominated the industry. Yet disaster famously ensued, as Intel and Microsoft subsequently captured the lion's share of the computer industry's profits, and Big Blue entered a decade of decline.

It's easy to look back and ask, "What were they *thinking?*" but, in truth, IBM's decision fit well with prevailing orthodoxies, particularly with the idea that companies should outsource all but their core competencies—that is, sell off or outsource any function that another company could do better or cheaper than it could. Indeed, at the time, many observers hailed IBM's move as a masterstroke of strategy, forward-looking and astute.

Of course it turned out not to be, but what lessons should we draw from IBM's spectacular mistake? They're far from clear. It's easy to say, "Don't outsource the thing that's going to make lots of money *next,*" but existing models of industry competitiveness offer very little help in predicting where, in an industry's value chain, future profitability will be most attractive. Executives and investors all wish they could be like Wayne Gretzky, with his uncanny ability to sense where the puck is about to go. But many companies discover that once they get to the place where the money is, there's very little of it left to go around.

Over the past six years, we've been studying the evolution of industry value chains, and we've seen a recurring pattern that goes a long way toward explaining why companies so often make strategic errors in choosing where to focus their efforts and resources. Understanding the pattern helps answer some of the enduring questions that IBM's leaders, and thousands of others before and since, grappled with: Where will attractive profits be earned in the value chain of the future? Under what circumstances will integrated corporations wield powerful competitive advantages? What changes in circumstances will shift competitive advantage to specialized, nonintegrated companies? What causes an industry to fragment? How can a dominant, integrated player determine what to outsource and what to hold on to as its industry begins to break into pieces? How can new entrants figure out where to target their efforts to maximize profitability?

The pattern we observed arises out of a key tenet of the concept of "disruptive technologies"—that the pace of technological progress generated by established players inevitably outstrips customers' ability to absorb it, creating opportunity for upstarts to displace

Illustration by CARMEN DEÑÓ

incumbents. This model has long been used to predict how an industry will change as customers' needs are exceeded. (See the sidebar "The Disruptive Technologies Model.") Building on that ground, this new theory provides a useful gauge for measuring not only where competition will arise under those circumstances but also where, in an industry's shifting value chain, the money will be made in the future.

The implications of our theory will surprise many readers because, if we're right, the money will not be made where most companies are headed, as they busily outsource exactly the things they should be holding on to and hold on to precisely the things they should unload. But we'll get to that later...

A Tight Fit

Companies compete differently at different stages of a product's evolution. In the early days, when a product's functionality does not yet meet the needs of key customers, companies compete on the basis of product performance. Later, as the underlying technology improves and mainstream customers' needs are met, companies are forced to compete on the basis of convenience, customization, price, and flexibility. These different bases of competition call for very different organizational structures at both the company and industry levels.

When products aren't yet good enough for mainstream customers, competitive pressures force engineers to focus on wringing the best possible performance out of each succeeding product generation by developing and combining proprietary components in ever more efficient ways. They can't assemble off-the-shelf components using standard interfaces because that would force them to back away from the frontier of what's technologically possible. When the product is not good enough, backing off from the best you can do spells competitive trouble. To make the highest-performing products possible, then, companies typically need to adopt interdependent, proprietary product architectures.

During the early days of the computer industry, for example, when mainframes were not yet powerful or fast enough to satisfy mainstream customers' needs, an independent contract manufacturer assembling machines from suppliers' components could not have survived because the way the machines were designed depended on the way they were manufactured and vice versa. Nor could an independent supplier of operating systems, core memory, or logic circuitry have survived because these key subsystems had to be designed interdependently, too.

When the product isn't good enough, in other words, being an integrated company is critical to success. As the most integrated company during the early era of the computer industry, IBM dominated its world. Ford and General Motors, as the most integrated automakers, dominated their industry during the era when cars were not good enough. For the same reasons, RCA, Xerox, AT&T, Alcoa, Standard Oil, and U.S. Steel dominated their industries at similar stages. Their products were based on the sorts of proprietary, interdependent value chains that are necessary when pushing the frontier of what is possible.

When a nonintegrated company tries to compete under these circumstances, it usually fails. Stitching together a system with other "partner" companies is extremely difficult when the subsystems and expertise those companies provide are interdependent. We could offer numerous historical examples, but there are plenty of illustrations from industries that are still emerging. In the late 1990s, for example, many nonintegrated companies attempted to offer high-speed DSL access to the internet over phone lines operated by telephone companies. Most of these attempts failed. Many believe that low prices for DSL service that were rooted in regulatory peculiarities of the Telecommunications Act of 1996 are what drove the competitive local exchange carriers toward bankruptcy. This was only the proximate cause of their demise, however. The fundamental issue is that at this point in the industry's evolution, DSL technology isn't good enough yet, and there are, as a result, too many unpredictable interdependencies between what focused DSL providers need to do and what the telephone companies must do in response. The incumbent phone companies' capacity to span the whole value chain has been a powerful advantage. They understand their own network architectures and can consequently offer service more quickly, with fewer concerns about the unintended consequences of reconfiguring their own central-office facilities. Regulatory mandates cannot decouple an industry at an interdependent interface. As long as DSL service is not good enough to satisfy most users, the integrated telephone companies will be able to provide better, more reliable service than nonintegrated competitors.

Going to Pieces

Product performance almost always improves beyond the needs of the general consumer, as companies stretch to meet the needs of the most demanding (and most profitable) customers. When technological progress overshoots what mainstream customers can make use of, companies that want to win the business of the overserved customers in less-demanding tiers of the market are forced to change the way they compete. They must bring more flexible products to market faster and customize their products to meet the needs of customers in ever smaller market niches.

To compete on these new dimensions, companies must design modular products, in which the interfaces between components and subsystems are clearly specified. Ultimately, these interfaces coalesce into industry standards. Modular architectures help companies introduce new products faster because subsystems can be improved without having to redesign everything. Companies can mix and match the best components from the best suppliers to respond to the specific needs of individual customers. Although standard interfaces invariably force compromises in system performance, competitors aiming at overserved customers can comfortably trade off some performance to achieve the benefits of speed and flexibility.

Once a modular architecture and the requisite industry standards have been defined, integration is no longer crucial to a company's success. In fact, it becomes a competitive disadvantage in terms of speed, flexibility, and price, and the industry tends to dis-integrate as a consequence. The exhibit "The Dis-Integration of the Computer Industry" illustrates how this happened in that field. During its early decades, the dominant companies were integrated across most value-chain links because competitive conditions mandated integration. As the personal computer disrupted the industry, however, it was as if the industry got pushed through a bologna slicer. The dominant, integrated companies were displaced by specialists that competed in horizontal strata within the value chain.

This shift explains why Dell Computer was so successful in the 1990s. Dell did not succeed because its products were better than those of competitors IBM, Compaq, and the like. Rather, overshooting triggered a shift in the basis of competition to speed, convenience, and customization, and Dell's business model was a perfect match for that environment. Customers were delighted to buy computers with outsourced subsystems, custom-assembled to their own specifications and delivered incredibly quickly at competitive prices. This also explains how Cisco, with its disruptive router and its nonintegrated business model, bested more integrated competitors like Lucent in the market for telecommunications equipment.

Fuzzy Links

The careful reader will have noticed that the interfaces between stages in the value chain are central to our argument—both to the forces that

Idea in Brief

THE CHALLENGE
Once a company's product can meet the needs of most of its mainstream customers, it begins to compete on convenience, customization, price, and flexibility and often outsources noncore functions. But those functions might be critical to the market's next big area of profitability, so it's unwise to jettison them too soon. How can leaders know what those future areas of growth will be?

THE SOLUTION
The model of disruptive technologies can help leaders predict how their industries will change by indicating where in an industry's shifting value chain money will be made in the future. When technologies are not yet developed enough to meet mainstream needs, integrated companies that make end-use products typically make the most money. But once companies begin to overshoot what their mainstream customers can use, more profits can often be found in the individual areas of the value chain—such as product design, production of physical components, or distribution.

SHIFTING PROFITS
As innovative technology creates standardization of components, which can then be replicated by competitors, profitability can shift further and further back in the value chain. By better understanding how their industries are changing, companies can predict exactly where future profits will be made.

The bedrock principle is this: Those who control the interdependent links in a value chain capture the most profit.

support integration in the early years of an industry and to those that ultimately pull an industry apart into component pieces. They'll become even more important when we move on to profitability flows in a moment. So let's look more closely at what we mean by "the interfaces between components and subsystems."

Say a company is considering whether it's feasible to procure a subsystem from a supplier or partner rather than make it in-house. Three conditions must be met. First, managers need to know what to specify—which attributes of the item they're procuring are crucial and which are not. Second, they must be able to measure those attributes so they can verify that they have received what they need. Third, there can't be any unpredictable interdependencies: They need to understand how the subsystem will perform with the other pieces of the system so that it can be used with predictable effect. These conditions—specifiability, verifiability, and predictability—are prerequisites to modular designs that enable companies to work efficiently with suppliers and partners. They constitute what economists would term "sufficient information" for an efficient market to emerge for a particular component or subsystem.

Typically, when product performance has become more than good enough, the technologies being used are mature enough for these conditions to be met—facilitating the decoupling of the value chain. It is when performance is *not* good enough that new technologies are used in new ways—and in those circumstances the conditions of specifiability, verifiability, and predictability often are not met. When sufficient information does not exist at an interface, managerial coordination will always trump market mechanisms, reinforcing the strength of integrated companies.

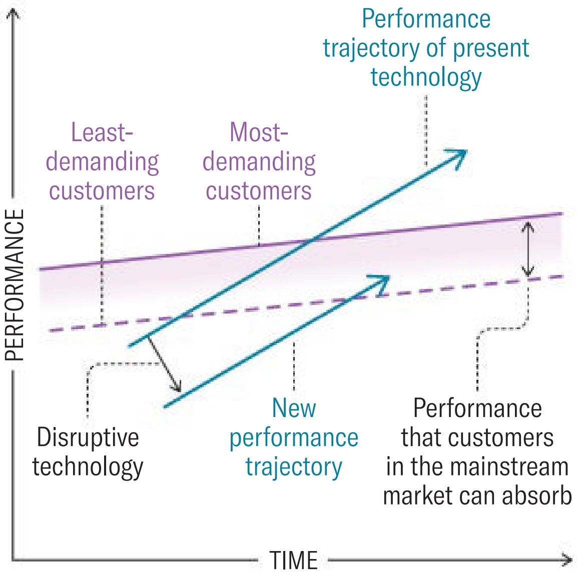
The evolving structure of the lending industry offers a good example of these forces at work. Integrated banks such as Chase and Deutsche Bank have powerful competitive advantages in the most complex tiers of the lending market. Integration is key to their ability to knit together huge, complex financing packages for sophisticated and demanding global customers. Decisions about whether and how much to lend cannot be made according to fixed formulas and measures; they can only be made through the intuition of experienced lending officers. The high-end bankers who create innovative, complex financial instruments for these customers play a similar role to engineers who push the technological envelope when product functionality is not good enough. In both cases, meeting the needs of the most demanding customers requires that all the constituent parts be under one roof, able to communicate through organizational rather than market mechanisms.

The simpler tiers of the lending market, on the other hand, are being disrupted by innovations in the way credit-worthiness is established—specifically by credit-scoring technology and advances in asset securitization. In these tiers, lenders know and can measure precisely those attributes that determine the likelihood that a borrower will repay a loan. Verifiable information about borrowers—how long they have lived, where they live,

The Disruptive Technologies Model

The disruptive technologies model contrasts the pace of technological progress with customers' ability to use that progress. According to the model, there are two types of performance trajectories in every market. One trajectory, depicted by the shaded area, shows how much improvement in a product or service customers can absorb over time. The other trajectory, shown by the solid lines, depicts the improvement that innovators in the industry generate as they introduce new and enhanced products.

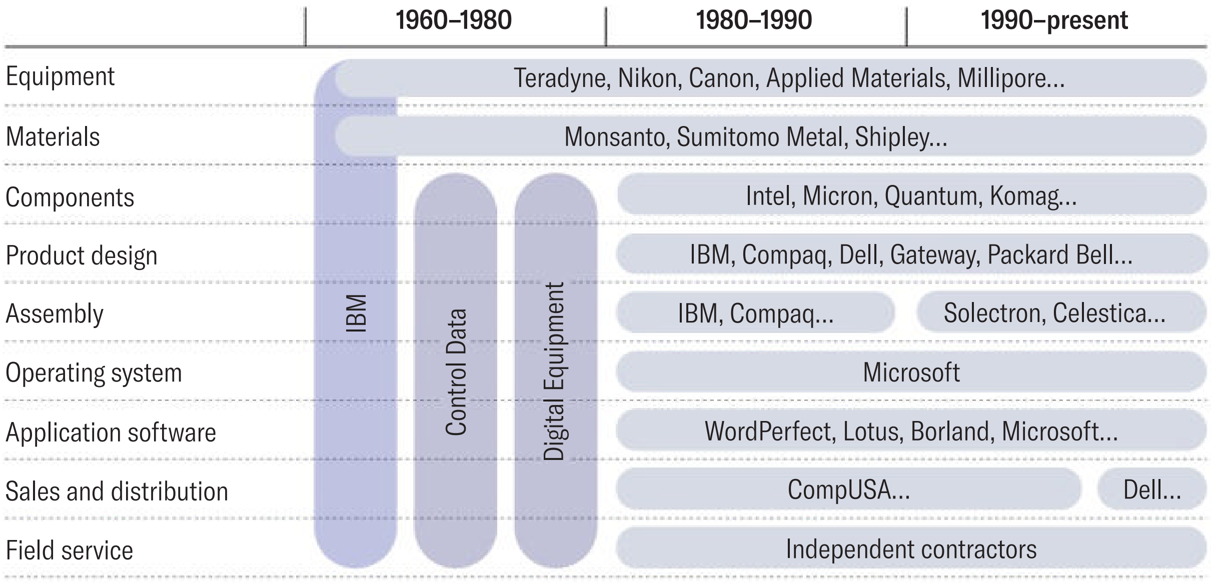
Almost always, this second trajectory—the pace of technological innovation—outstrips the ability of customers in a given tier of the market to absorb it. This creates the potential for innovative companies to enter the lower tiers of the market with "disruptive technologies"—cheaper, simpler, more convenient products or services. Almost always, the leading companies are so absorbed with upmarket innovations addressed to their most sophisticated and profitable customers that they miss the disruptive innovations. Disruptive technologies have caused many of history's best companies to plunge into crisis and fail.


Performance trajectory of present technology
Least-demanding customers
Most-demanding customers
PERFORMANCE
Disruptive technology
New performance trajectory
Performance that customers in the mainstream market can absorb
TIME

how long they have worked, where they work, what their income is, and whether they've paid bills on time—is fed into powerful algorithms, which are used to automate lending decisions. Credit scoring took root in the 1960s in the lowest tier of the market, as department stores began to issue their own credit cards. Then, unfortunately for the big banks, the specialist horde of nonbank institutions moved inexorably upmarket in pursuit of profits—first to general consumer credit-card loans, then to automobile and mortgage loans, and now to small-business loans. True to form, the lending industry in these simpler tiers of the market has largely dis-integrated, as these specialist companies have emerged, each focusing on just a slice of added value.

The Dis-Integration of the Computer Industry

Mainframes and minicomputers were never good enough or fast enough or cheap enough to create a mass market and were therefore always the province of large, integrated players who built their machines from their own proprietary designs and components. The PC, though, very quickly became good enough for the average consumer, giving rise to an army of specialized players.


1960–1980
1980–1990
1990–present
Equipment
Materials
Components
Product design
Assembly
Operating system
Application software
Sales and distribution
Field service
IBM
Control Data
Digital Equipment
Teradyne, Nikon, Canon, Applied Materials, Millipore...
Monsanto, Sumitomo Metal, Shipley...
Intel, Micron, Quantum, Komag...
IBM, Compaq, Dell, Gateway, Packard Bell...
IBM, Compaq...
Solectron, Celestica...
Microsoft
WordPerfect, Lotus, Borland, Microsoft...
CompUSA...
Dell...
Independent contractors

Where the Money Goes

Clearly, companies competing in an integrated market face very different challenges from those competing in a fragmented market—the ball game changes fundamentally once components become modular and customers' thoughts turn to speed or convenience rather than functionality. Sources of profitability change as well. Our model can help managers, strategists, and investors assess how the power to grab profits is likely to shift in the future. The bedrock principle is this: Those who control the interdependent links in a value chain capture the most profit.

In periods when product functionality is not yet good enough, integrated companies that design and make end-use products typically make the most money, for two reasons. First, the interdependent, proprietary architecture of their products makes differentiation straightforward. Second, the high ratio of fixed to variable costs, which is inherent to the design and manufacture of architecturally interdependent products, creates steep economies of scale. Larger competitors can amortize high fixed costs over greater volume, giving them strong cost advantages over smaller competitors. Making highly differentiated products with strong cost advantages is a license to print money, and lots of it.

Hence IBM, as the most integrated competitor in the mainframe computer industry, made 95% of the industry's profits from just a 70% market share. And from the 1950s through the 1970s, General Motors garnered 80% of the profits from about 55% of the U.S. auto market. Most of IBM's and GM's suppliers, by contrast, survived on subsistence profits year after year.

But when the large integrated players overshoot what their mainstream customers can use, the tables begin to turn. Disruptive competitors begin to move upmarket, and the power to make money shifts away from companies that design and assemble the end-use product toward the back end of the value chain to those companies that supply subsystems with internal architectures that are still technologically interdependent.

Management Education—Ripe for Dis-Integration

Few industries are exempt from the forces of disruption and dis-integration, management education included. This industry is changing, and whether these changes prove to be a boon or a bane to leading schools of management depends on how they address these forces.

At the top of the heap, big-name business schools offer top-tier MBA students a premium, expensive product. It's worth it: Graduates easily command starting salaries of $130,000 or more, and they're in high demand. True to the model, the architecture of top-tier MBA programs is interdependent. Their premise is that future managers can't understand marketing, for example, unless they study product development, and they can't study product development without studying manufacturing, and so on. The programs are also integrated in the sense that the faculty members do everything, soup to nuts: conduct research, writes cases and articles, design courses, and teach.

But the familiar pattern of overshooting and subsequent modularization is becoming evident. As graduates of these top-tier schools have become more expensive to employ, a significant portion of graduates now take jobs with consulting firms, investment banks, and high-tech start-ups. The established operating companies that historically had been major employers of MBAs increasingly find these graduates to be too expensive to fit into their salary structures and career paths.

Increasingly, those companies, and even some consulting firms, are opting to train their own. They hire people with bachelor's or graduate technical degrees, then help them build managerial skills in formally organized institutions like Motorola University and GE's Crotonville. Other companies have less-structured, but equally extensive, management-training programs. Last year, IBM spent more than $500 million on management training, for example, and announced it would begin selling management education programs to other companies' executives as well.

Like most disruptions, these on-the-job training programs are probably not as good as what they're replacing, at least in the way the elite schools define "good." They're certainly not as thorough, and their students aren't, on average, quite as polished and prepared as the best MBA students. But like other disruptive businesses, they compete on different terms. On-the-job training programs are modular, custom-assembled courses whose content is tailored to specific issues the manager-students face. Managers will take a three-day course on strategic thinking, for instance, then use what they've learned to define a better strategy. It may not be as comprehensive as an MBA strategy class, but because it's better targeted to the students' immediate needs, it often proves more useful to them and to their employers. And in contrast to the leading schools' integrated structure, on-the-job management education is dis-integrated. Hundreds of specialized companies develop materials; others design courses; still others produce and teach them.

How should the top management schools react? They could, of course, ignore the trend—there won't be a dearth of MBA students anytime soon, and these institutions will likely survive in their current form for years. If they ignore the disruption, though, they will gradually lose influence because the vast majority of learning about management already occurs on the job. A second alternative is to skate to where the money is: to the design and assembly of customized courses for on-the-job training. This is tempting because the custom executive-education market is growing, but it would be hard to compete against the focused, flexible specialists already in that space.

A better idea is to skate to where the money will be—to become the "Intel Inside" of corporate-training programs. That means providing not just single components in the form of cases or articles but rather "subsystems," modules with proprietary internal architectures. These would be predefined sets of cases, articles, news clips, and video materials from which well-defined insights can cumulatively but interdependently be built. Teaching notes that make explicit the connections within these materials—connections that historically have resided only in the intuition of the professors who wrote the materials—would make it simple for a larger set of less well-trained instructors in a corporate setting to do a great job teaching powerful concepts. Companies that design courses could mix and match such materials to address students' needs.

Always, disruption facilitates new waves of growth in an industry because it enables more people to buy and consume. If our model is right, future profits in the growing portions of this industry will come not from the design and assembly of courses, anyway, but from the development of the subsystems that make up those courses. That's where the steep scale economies and differentiated materials should reside. If the leading management schools worked in this way to facilitate their own disruption, they would find they can continue to teach MBA students within their conventional model for the foreseeable future, even as they participate in the growth of the total management education industry—and continue to enjoy much of the profit as well.

A good way to visualize this is to imagine an engineer employed at Compaq whose boss just told her to design a desktop computer better than Dell's, IBM's, or Hewlett-Packard's. How would she do it? When designing and assembling a modular product, your competitors can replicate anything you can do very quickly. And because most of the costs in an outsourcing-intensive business model are variable rather than fixed, there are minimal economies of scale, so that large and small competitors have similar costs. Making an undifferentiated product at undifferentiated costs is a recipe for earning undifferentiated profits.

So, what's our Compaq engineer to do? She'll put pressure on her suppliers to invent faster microprocessors and higher-capacity, lower-cost disk drives.

Overshooting at the system level often throws the subsystem suppliers back to a stage where their product is not good enough for what the system assembler needs. Competitive forces consequently compel the subsystem suppliers to create architectures that are increasingly interdependent and proprietary as they try to push the bleeding edge of performance. They have to do this to win the business of their immediate customers, who are the designers and manufacturers of modular products. Hence, as a natural and inescapable result of the shift in industry structure, the place where companies are used to making a lot of money—the end-user stage—becomes unlikely to be the place where money will be made in the future. And, conversely, the places where attractive profits were rarely made in the past—components and subsystems—often become highly profitable.

The exhibit "Where the Money Went in the PC Industry" illustrates how this worked in the desktop computer market in the 1990s. Initially, money flowed from the customer to the companies that designed and assembled computers; but as the decade progressed, less and less of it stopped there as profit. Quite a bit of this money flowed over to operating system maker Microsoft and lodged there. Another chunk flowed to processor manufacturer Intel and stopped there. Money flowed to the DRAM chip makers such as Samsung and Micron Technology as well, but not much of it stopped there. It flowed through them and accumulated instead at companies like Applied Materials, which supplied the chip-manufacturing equipment that the DRAM makers used. Similarly, money flowed right through the assemblers of disk drives such as Quantum and lodged at the stage where heads and disks were made.

What's different about the places where the money collected and those where it didn't? For most of this period, profits lodged with the products that were the ones not yet good enough for what their immediate customers needed. The architectures of those products therefore tended to be interdependent and proprietary. Companies in the blue boxes could only hang on to subsistence profits because the functionality of their products tended to be more than good enough, and so their architectures had become modular.

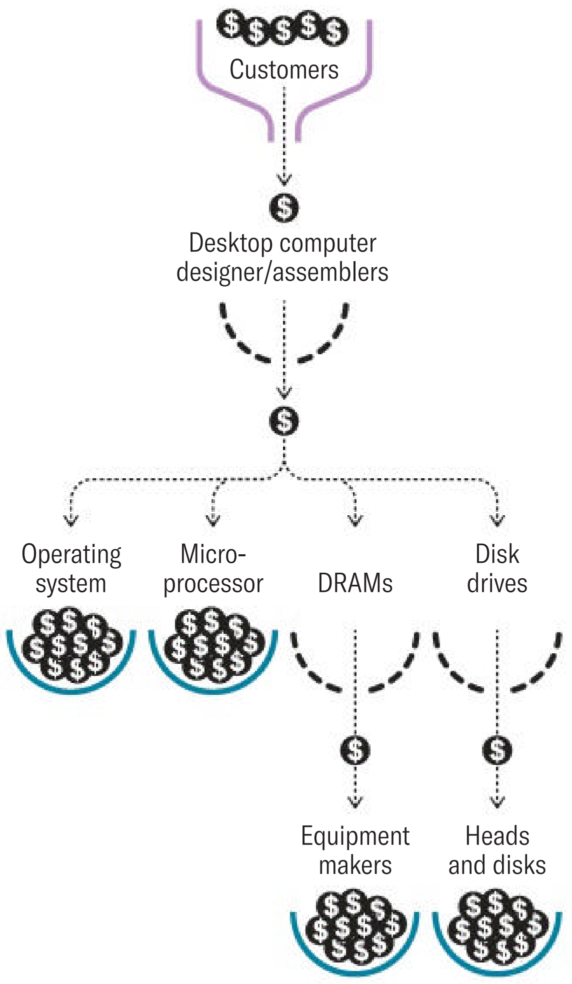
Consider the DRAM industry. Because the architecture of their chips was modular, DRAM makers could not be satisfied with even the very best manufacturing equipment available. To succeed, DRAM producers needed to make their products at ever higher yields and ever lower costs. This rendered the functionality of the equipment that Applied Materials and other such companies made not good enough. As a consequence, the architecture of this equipment became interdependent and proprietary, as the equipment makers strove to inch closer to the performance their customers needed.

Where Companies Go Wrong

Once an industry starts to fragment, a very predictable thing happens to companies that design and assemble modular products. They face investor pressure to improve their return on assets but find that because they can't differentiate their products or make them at a lower cost than competitors, they can't improve the numerator of their ROA ratio. So they shrink the denominator; they sell off asset-intensive units that design and manufacture components to companies that see in those same operations the opportunity to create subsystems whose architectures are progressively more interdependent—thus improving the numerator of *their* ROA ratio. Lucent's recent spin-offs of its component and manufacturing operations is an example. This seems perfectly logical and necessary, given the increasingly modular character of many of Lucent's systems. But with perfect predictability, this pressure from Wall Street to boost ROA forces companies to skate away

Where the Money Went in the PC Industry

As PCs became good enough for mainstream users, profits flowed from the customers through the assemblers (the IBMs and Compaqs of the world) to lodge in the component makers—the operating system maker (Microsoft), the processor maker (Intel), and initially to the memory chip makers and disk drive manufacturers. But as DRAM chips and drives became good enough for the assemblers, the money flowed even further up the value chain to DRAM equipment makers and head and disk suppliers.



from the place where the money will be made in the future.

This scenario could soon play out in one of IBM's businesses. Through the 1990s, the capacity of the 2.5-inch disk drives used in notebook computers tended to be inadequate. True to form, their architectures were interdependent, and the design and assembly stage was very profitable. As the leading manufacturer, IBM enjoyed 40% gross margins. Now, drive capacity is becoming more than good enough for notebook computer makers, presaging the decline of what has been a beautiful business.

If IBM plays its cards right, however, it is actually in a very attractive position. As the most integrated drive maker, it can skate to where the money will be by using the advent of modularity to detach its head and disk operations from its disk drive design-and-assembly business. If IBM begins to sell its components aggressively to competing disk drive makers, it can continue to enjoy the most attractive profit levels in the industry. There was a time IBM could fight this particular war and win. Now, a better strategy is to sell bullets to the combatants.

IBM has already made similar moves in its computer business through its decisions to chop up its integrated value chain and aggressively sell its technology, components, and subsystems in the open market. Simultaneously, it has created a consulting and systems integration business at the high end and de-emphasized the design and assembly of computers. As IBM has skated to those points in the value chain where complex, nonstandard integration needed to occur, that has led to a remarkable—and remarkably profitable—transformation of a huge company. To the extent that an integrated company like IBM can flexibly couple and decouple its operations, rather than irrevocably sell off operations, it has greater potential than a nonintegrated company to thrive from one cycle to the next.

Where Will the Money Be in the Auto Industry?

We believe this model can help managers, strategists, and investors in a wide variety of industries see into the future with greater clarity than the traditional tools of historical data analysis have allowed. When we consider, for example, where the money in the automobile industry will go in the future, the car companies seem to be falling into exactly the same trap that IBM did some 15 years ago.

While automobiles often used to rust or fall apart mechanically well before their owners were ready to part with them, auto quality now has overshot what most customers want or need. In fact, the most reliable cars usually go out of style long before they wear out. As a result, the basis of competition is changing. Whereas it used to take six years to design a new car model, today it takes less than two. Car companies routinely compete by customizing features to the whims of smaller and smaller market niches. In the 1960s, it was not unusual for a model to sell a million units a year. Today, the market is far more fragmented: If you sell 200,000 units of a particular model, you're doing

> **Executives whose companies are currently making lots of money ought not to wonder *whether* the power to earn attractive profits will shift, but *when.***

fine. Some makers now promise that you can walk into a dealership, custom order a car exactly to your desired configuration, and have it delivered in five days—roughly the response time that Dell Computer offers.

To compete in this way, automakers are adopting modular architectures for their mainstream models. Rather than knitting together individual components from diverse suppliers, they're procuring subsystems from fewer tier-one suppliers. The architecture within each subsystem—braking, steering, chassis, and the like—is becoming progressively more interdependent as these suppliers work to meet the auto assemblers' performance and cost demands. Inevitably, the subsystems' external interfaces are becoming more modular because the economics of using the same subsystem in several car models more than compensates for any compromises in performance that might result.

As the basis of competition has shifted, the vertically integrated automakers have had to break up their value chains so they can more quickly and flexibly incorporate the best components from the best suppliers. GM subsequently spun out its component operations into a separate company, Delphi Automotive Systems, and Ford has spun out its component operations as Visteon. Thus, the same thing is happening to the auto industry that happened to computers: Overshooting has precipitated a change in the basis of competition, which has precipitated a change in architecture, which has forced the dominant, integrated firms to dis-integrate.

To become fast and flexible, IBM's PC business outsourced its microprocessor to Intel and its operating system to Microsoft. But in the process, IBM hung on to where the money *had* been—the design and assembly of the computer system—and put into business the two companies that were positioned where the money *would* be. GM and Ford, with the encouragement of their investment bankers, have just done exactly the same thing. They have spun out the pieces of the value chain where the money will be in order to stay where the money has been.

Ford and GM had no choice but to decouple their component operations from their design-and-assembly businesses. Indeed, they gave their shareholders the option of owning one or both. But rather than an irreversible divestiture, they might have taken a page from IBM's recent forays into opportunistic decoupling, ignored the siren song of investment bankers, and found a way not to shed those asset- and scale-intensive businesses where the numerator of the ROA ratio will likely be more attractive in the future. This will be especially true if shifts in customer demand mandate some sort of reintegration in the future.

Managers of the slimmed-down automakers can still do well, but they'll need to dramatically change the way they do business in the design-and-assembly stage. They need to do in their industry what Dell did in the computer industry—become consummately fast, flexible, and convenient. Overshooting changes the game. If GM and Ford can play this new game better than competitors, they can still prosper, much as Dell did in the 1990s against competitors who hadn't mastered the new rules as effectively.

THE IMPLICATIONS OF these findings are clear. The power to capture attractive profits will shift in the value chain *to* those activities where the immediate customer is not yet satisfied with the functionality of available products. It is in these stages that complex, interdependent integration occurs—activities that create steeper economies of scale and greater opportunities for differentiation. The power will shift *away* from activities where the immediate customer is more than satisfied because it is there that standard, modular integration occurs. In most markets, this power shift occurs tier by tier in a way that is quite predictable.

Executives whose companies are currently making lots of money ought not to wonder *whether* the power to earn attractive profits will shift, but *when*. If they watch for the signals, quite possibly they can prosper in all cycles, rather than in only one.

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SEE THE BIGGER PERSPECTIVE

Quick Takes

ALUXUM/GETTY IMAGES

1. Thinking Long-Term in a Short-Term Economy

→ by RON ASHKENAS

DO YOU FIND it odd that when a company announces a profit of $8.4 billion in a single quarter, the performance is reported as "disappointing"? Or $5.7 billion as "dreadful"? Fact is, these were the terms used to describe the results produced by Exxon Mobil and Royal Dutch Shell after their second-quarter earnings release.

Almost all publicly traded firms are given qualitative assessments by analysts during earning announcement season, which influence investors. But too often the weight of Wall Street opinion causes executives to focus on hitting short-term earnings targets rather than creating long-term value. And even if executives' strategies are not playing to short-term expectations, they still have to explain why this quarter's earnings are not up to snuff.

So, despite their robust multibillion-dollar profits, analysts deemed Exxon Mobil's and Shell's results "disappointing" and "dreadful" compared with those of previous quarters. And they used these words even while acknowledging that the industry is facing lower oil prices, increased availability of natural gas, decreasing economic activity, and rising costs—all factors largely outside of the companies' immediate control. The analysts also said that in the face of all this, both companies continued to make long-term investments and still delivered billions of dollars in profit. How is that "disappointing"?

Unlike Exxon Mobil and Shell, many other companies end up making decisions—such as laying off staff or overpaying for an acquisition—to appease these quarterly-earnings pressures. In fact, one of the surest ways to increase stock prices in the short term is to announce a significant layoff.

However, the reality is that most organizations can't be judged on a quarter-to-quarter basis. Strategies take time to unfold and bear fruit, and managers need time to develop their own capabilities and those of their teams. Yes, it's important to achieve short-term results as a way to test new approaches and build confidence, but these need to be put into the context of long-term value creation or we run the risk of sacrificing our future.

How do you keep the focus on long-term value creation while the media and the

> **Most organizations can't be judged on a quarter-to-quarter basis—strategies take time to unfold and bear fruit.**

markets exert pressure to do the opposite? Here are a few thoughts, not just for CEOs but for all managers:

Make sure you have a dynamic, constantly refreshed strategic "vision" for what your organization (or unit) will look like and achieve three to five years from now. I'm not talking about a strategic plan but rather a compelling picture of market/product, financial, operational, and organizational shifts over the next few years. Try to develop this with your direct reports (and other stakeholders) and put the key points on one page. This then serves as a true north to help guide key decisions.

Make sure your various projects and initiatives have a direct line of sight to your strategic vision. Challenge every potential investment of time and effort by asking whether it will help you get closer to your vision. Doing this will force you to continually rebalance your portfolio of projects, weeding out those that probably won't move you in the right direction.

Be prepared to take some flack. There may be weeks, months, or quarters where the results are not on the rise or don't match your (or analyst's) expectations. Long-term value, however, is not created in straight lines. As long as you're moving iteratively toward the strategic vision on a reasonable timeline, you're probably doing the right things. And sure, you can always do more. But just make sure that you're doing things for the right reasons.

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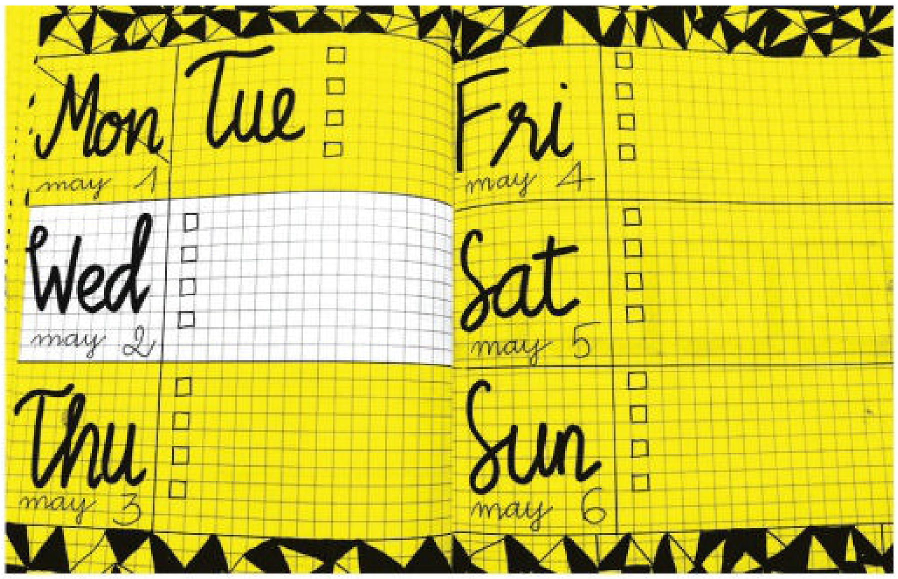
BICH TRAN/PEXELS



2. How to Focus on What's Important, Not Just What's Urgent

→ by ALICE BOYES

AT THE END of the day, do you feel you've met your most pressing deadlines but haven't accomplished anything fundamentally important? You're hardly alone. In a series of studies recently published in the *Journal of Consumer Research*, people typically chose to complete tasks with very short deadlines, even in situations in which tasks with less-pressing deadlines were just as easy and promised a bigger reward.

It's natural to want to get deadline-driven tasks off your mental to-do list. A paradox many people face is that our most meaningful tasks are less likely to have deadlines than relatively unimportant tasks. Your important priorities might relate to:

- Enacting your values (for example, volunteering or spending more time with your children)
- Achieving public recognition (getting invited to sit on industry panels or writing a book)
- Improving vital skills (upping your knowledge of

statistics or learning a new language)

- Averting disasters (scheduling an annual doctor checkup or creating a crisis management protocol for your business)

If you're like most people, these priorities slip to the back of your mind while you work on low-importance, time-specific tasks, such as booking a hotel room for a conference, clearing out your email inbox, or writing a monthly newsletter.

So, what can you do? I've put together a list of practical strategies and tips, but know that none of these suggestions is going to lead to you making perfect choices. Aiming for perfection is what causes people to stay stuck. Instead, implement strategies that will incrementally move you in the right direction but don't require much effort.

Schedule important tasks, and give yourself way more time than you'll need. Research shows that scheduling when and where you'll do something makes it dramatically more likely that the task will get done.

For very important and long-avoided tasks, I like to use a strategy that I call "clearing the decks," which means assigning a particular task to be the *only* one I work on for an entire day. I recently did this to get myself to set up a password manager, something I'd been putting off for literally years.

Unfamiliar but important tasks often have a learning curve that makes how much time they'll take to complete unpredictable. Working on them often feels more clumsy than efficient, which is another subtle factor in why we don't do them. The "clear the decks" strategy of allowing yourself a full day, even when that seems excessive, can be useful in these cases.

So that you don't put off important personal care, designate a time slot once a week to make personal appointments during work hours, should this be necessary. This can help ensure you get medical issues investigated early. Most weeks the slot will go unused, but keep it walled off for when the need arises.

Isolate the most impactful elements of important tasks. Big tasks often require incremental progress. Using the password-manager example, my initial goal had been to create new, strong, and unique passwords for all my online accounts, but this wasn't absolutely necessary. It made most sense to start with my 10 to 20 most valuable accounts.

If you habitually set goals so lofty you end up putting them off, try this: When you consider a goal, also consider a half-size version. Mentally put your original version and the half-size version side by side, and ask yourself which is the better (more realistic) goal. If your task still feels intimidating, shrink it further until it feels doable. You might end up with a goal that's one-fourth or one-tenth the size of what you initially considered but that's more achievable—and once you start, you can always keep going.

Anticipate and manage feelings of anxiety. Many important tasks involve tolerating thinking about things that could go wrong, which is anxiety-provoking; for example, making a will, investigating a lump, succession planning for your business, actually reading your insurance policies, or creating that crisis management plan.

Even when tasks don't involve contemplating catastrophes, those that have the potential for large payoffs in the future commonly involve tolerating anxiety. Important but potentially anxiety-provoking tasks include developing new friendships, doing something challenging for the first time, asking for what you want, having awkward conversations, facing up to and correcting mistakes, and chipping away at large long-term tasks where you need to tolerate fluctuating self-confidence and doubt throughout the project.

Broadly speaking, working on important things typically requires having good skills for tolerating uncomfortable emotions. Here's a personal example: Reading the work of writers who are better than I am is useful for improving my skills, but it triggers envy and social comparison. Acknowledging and labeling the specific emotions that make an experience emotionally challenging is a basic but effective step for reducing those emotions.

You'll be better able to pursue goals that involve going outside your psychological comfort zone if you have top-notch skills for managing your thoughts and emotions.

Spend less time on unimportant tasks. Unimportant tasks have a nasty tendency of taking up more time than they should. For example, you might sit down to proofread an employee's

Working on important things typically requires having good skills for tolerating uncomfortable emotions.

report, but before you know it, you've spent an hour rewriting the whole thing. In the future, you might decide to limit yourself to making your three most important comments on any fundamentally acceptable piece of work or to give yourself a time limit for how long you'll spend providing notes.

Having strategies for making quicker decisions can help too. When you've got a pressing decision to make, it can be better to make a quick decision than a perfect one that takes more time.

Prioritize tasks that will reduce your number of urgent but unimportant tasks. In modern life, it's easy to fall into the trap of being "too busy chasing cows to build a fence." You don't want to fix the same problems over and over or give the same instructions repeatedly. To overcome a pattern of spending all day "chasing cows," you can outsource, automate, batch small tasks, eliminate tasks, streamline your workflow, or create templates for recurring tasks. Look for situations in which you can make an investment of time once to create a system that will save you time in the future, such as setting up a recurring order for office supplies rather than ordering items one at a time as you run out.

One specific strategy I cover in *The Healthy Mind Toolkit* is retraining the "decision leeches" in your life. Decision leeches are people who defer decisions to you. For example, you might ask someone else to make a decision, but instead of doing it, they email you a list of options for you to look at, putting the responsibility back on you. Instead of automatically answering the person, ask them to make a clear recommendation.

Pay attention to what helps you see (and track) the big picture. When we're head-down in the grind, it's hard to have enough mental space to see the big picture. Pay attention to what naturally helps you do this. Something that helps me is travel, especially taking flights alone. There's nothing like a literal 10,000-foot view to give me a clearer perspective on my path. Spreadsheets help me see the big picture too. As much as I hate bookkeeping and taxes, doing them helps me pay attention to and optimize my overall financial situation. Taking more breaks can help stop you from going down the rabbit hole of spending a lot of time on unimportant things without realizing that's what you're doing.

Catching up with colleagues every six months or so also helps me focus on my important goals. Invariably we update each other on what we've been doing and what we're trying to get done. Likewise, I like to read certain personal finance bloggers from time to time to help me stay on track with my finances.

Tracking your time use can help too, but the downside is that tracking itself takes time and willpower. I use the RescueTime app to effortlessly track how much time I'm spending on different websites (including Gmail). Then I quickly glance at the report every week.

Don't skip whatever helps you see the big picture. Also, give yourself time after those activities to figure out how you're going to translate your insights into specific plans and actions.

If you're struggling with prioritizing the important over the urgent, don't be too hard on yourself. The number of deadlines and decisions we face in modern life, juxtaposed with the emotionally (and cognitively) challenging nature of many important tasks, makes this struggle an almost universal one. I've written entire books on how to focus on the big picture and stop self-sabotaging, and I still find it difficult. I consider myself successful when I have taken my own advice at least 50% of the time! This is a reasonable rule of thumb you might adopt, too.

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3. How Leaders Can Focus on the Big Picture

→ by ELSBETH JOHNSON

EVERY LEADER KNOWS that they shouldn't micromanage—even if some of us still do. But while we understand the downsides of micromanaging and take action to avoid it, we still haven't sufficiently embraced the upsides of *not* micromanaging.

The main upside is that leaders have more time to spend on what we call *macromanagement*. Although different definitions of this term are floating around, when I talk with executives, I use it to mean managing the big issues rather than the small ones. Time and effort spent on macromanagement enables leaders to be as clear, decisive, and disciplined at the macro level—on the big strategic questions the organization is facing—as their managers are at the micro level, such as how these decisions might be implemented.

So, what are these big strategic questions that leaders aren't spending enough time on or aren't answering in a sufficiently clear or disciplined way? They are questions about:

- Why the organization exists and what its purpose is
- What it offers (and does *not* offer) its customers, and how and why this offer delivers value to these customers
- What this produces for the business and for shareholders—the critical outcome metrics by which the organization will be judged
- How the people within the organization will behave—toward customers, other stakeholders, and one another

I don't know many leaders who would say they don't think these questions are important. But I know lots of leaders who don't spend enough time answering them, and even more who don't answer them with sufficient clarity so that their people can then get on with delivering the answers.

Lack of Time Isn't the Only Reason Leaders Ignore These Questions

A lack of time, too many so-called priorities, and the gnawing presence of "the urgent" masquerading as "the important" are usually quoted as the main reasons leaders' answers to these macro questions aren't clear enough.

But I suspect an even more fundamental reason is at play here. For the past 30 years, the literature on leadership and empowerment has advised leaders not to be too prescriptive about these questions, lest they undermine employee empowerment. We have been told that participative leadership, rather than prescriptive leadership, is what we should aim for; that organizations should be agile, with "change the only constant"; and that empowerment is critical for employee satisfaction and long-term value.

I agree with the third point: Empowerment is critical. But, as my own research shows, to be meaningful, empowerment requires boundaries—rules that have been decided on within which empowerment can be exercised. Ironically, to truly empower employees, leaders need to be prescriptive, at least about certain things. And these things are precisely the macro questions of why the organization exists, what it will deliver, and how it will behave.

If leaders aren't providing clarity and certainty about these critical macro questions, then the best, most motivated employees flail in

Time and effort spent on macromanagement enables leaders to be decisive about the organization's big strategic questions.

their so-called freedom because they can't be sure they are doing what leaders want or are using their time and resources in the best way possible. And because they want to do that, they find this lack of prescription stressful—and a huge constraint on them acting in an empowered way. Equally, the less keen and the less motivated on the payroll take this lack of prescription by leaders as license to do what they want (and perhaps what they were already doing), which, of course, may be diametrically opposed to what the leaders had in mind.

Making time for such macro questions is not a luxury—it is a necessity. And is it not something that can be delegated or outsourced. Nor is it something that leaders should do only once a year, at the strategy offsite or at the start of the strategic-planning round. It needs to become part of their weekly routine.

OK, I Made the Time. Now What?

Once you've set aside regular time to wrestle with these questions, how can you come up with the best possible answers—and refine those answers? Here are some tips from those who do it well:

Make choices in the negative. For everything you decide you want (a particular market positioning, an investment in a new product, a new capability or function), articulate what that means you *can't* do. This forces you to think through the consequences of choosing these options by determining what the trade-offs are for each choice you are making.

Pretend you have no money. When organizations are strapped for cash, they have to make hard choices about what to spend money on because they don't have enough. It's often during such times that leaders describe themselves as at their most strategic. But it's easy to diet if someone's padlocked the fridge—what happens when you get the key back? All too frequently, when the cash starts to flow again, leaders start "choosing everything" again, and this oxymoron sows the seeds of the next bout of underperformance. Having too many priorities means you don't really have any, which puts your organization's implementation capability under strain. It also compromises your own leadership bandwidth, reducing your ability to macromanage. So, pretend you're cash-strapped—it will act as the ultimate constraint on your desire to choose everything.

Talk to the unusual suspects. These could be inside or outside your organization, but whoever they are, choose them because they are likely to disagree with you, challenge you, or tell you something you don't know. To ensure you have a ready supply of such people, you may need to look again at your strategic network—it may have gotten too stale to offer you such connections. If that's the case, weed out the deadwood and actively recruit people from different sectors, skill sets, and backgrounds who can help you test the quality of your macro answers. Questions to ask them include: "Why will this not work?" and "What do I have to believe for this not to turn out that way?" Being challenged and having new information may well change your answers; even if it doesn't, it will make your existing answers more robust.

Exist at the macro and micro levels simultaneously. One of the CEOs I most admire can do this—she goes from 10,000 feet to ground level in 30 seconds, linking her answers to the macro questions (this purpose, this brand positioning, this customer offer) to the micro-operational implications for the business. But what she does really well is come back up. Once you have gone micro, it is all too tempting to stay there, but the main point of going micro is to test the validity of the macromanagement views you are coming to.

Of course, the prize for middle managers here is huge—once leaders are sufficiently clear and prescriptive about these macro questions, middle managers can start implementing them. But the prize for leaders is arguably greater still: They might no longer be needed for the daily grind of managing the business and can instead use their time and effort for the true work of leadership. That is, they can think about the strategic rather than the tactical and focus on the future rather than the present. After all, isn't that why they wanted to become leaders in the first place?

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4. Think and Act Like Your Customers

→ by SCOTT D. ANTHONY

MY COLLEAGUE Alex Slawsby made an observation while we sat in the office of one of our clients the other day. “Look around,” he said. “The room is full of products made by the company.”

Doesn’t seem so fascinating, does it? After all, any member of a “tribe” has markers to demonstrate their allegiance to the tribe. But Alex continued: “Don’t you think this room should be bursting with products made by competitors instead? Or other solutions consumers turn to instead of the company’s products?”

His point was thought-provoking. At most companies, it is a mark of shame to use anything other than the company’s product. I doubt that you would see many tubes of Crest at Colgate-Palmolive. Try bringing a Coke product into Pepsi. Steve Ballmer from Microsoft famously berated an employee last year for using an iPhone at a company event.

I remember a few years ago when we were working for DHL and we committed a cardinal sin. Not only did we send the company something via FedEx, but it was an invoice. (Fortunately a friendly client interceded and saved us from trouble.)

It’s kind of silly, isn’t it? An innovation-focused company shouldn’t have an avoid-the-competition-at-all-costs mindset. Instead, the company should always be wondering:

- What is the competition up to?
- Why might people prefer their products to ours?
- How does the customer think through purchase-and-use decisions?

Some companies have people who focus solely on competitive intelligence, but the simplest form of competitive intelligence is to encourage employees to act like “regular” customers. Pick whatever solution gets the job done better than anyone else.

Intentionally try the competitor’s products to see what works and what doesn’t work. Don’t consider it a mark of shame. Tell your boss that you are spending every minute doing market research to try to identify the competitor’s weaknesses—or your own.

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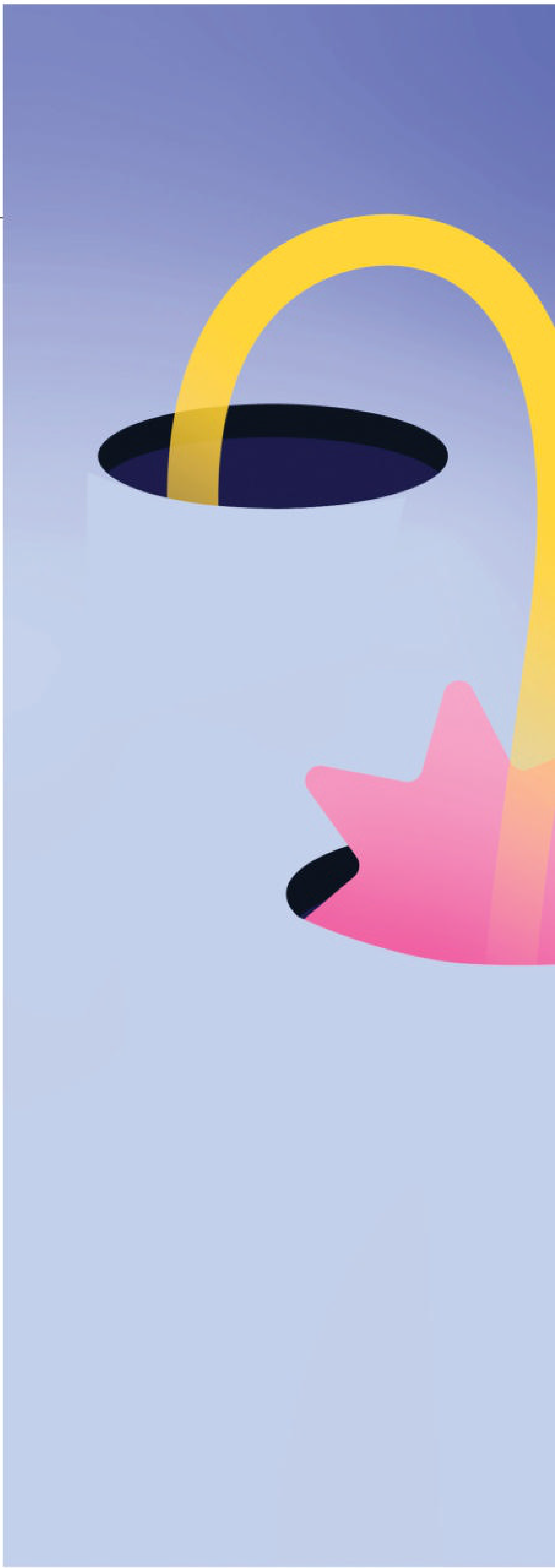
The Hidden Traps in Decision-Making

In making decisions, you may be at the mercy of your mind's strange workings. Here's how to catch thinking traps before they become judgment disasters.

→ by JOHN S. HAMMOND, RALPH L. KEENEY, and HOWARD RAIFFA



MAKING DECISIONS is the most important job of any executive. It's also the toughest and the riskiest. Bad decisions can damage a business and a career, sometimes irreparably. So where do bad decisions come from? In many cases, they can be traced back to the way the decisions were made—the alternatives were not clearly defined, the right information was not collected, the costs and benefits were not accurately weighed. But sometimes the fault lies not in the decision-making process but rather in the mind of the decision-maker. The way the human brain works can sabotage our decisions.

Researchers have been studying the way our minds function in making decisions for half a century. This research, in the laboratory and in the field, has revealed that we use unconscious routines to cope with the complexity inherent in most decisions. These routines, known as *heuristics,* serve us well in most situations. In judging distance, for example, our minds frequently rely on a heuristic that equates clarity with proximity. The clearer an object appears, the closer we judge it to be. The fuzzier it appears, the farther away we assume it must be. This simple mental shortcut helps us to make the continuous stream

Illustration by KATE OCTOBER

of distance judgments required to navigate the world.

Yet, like most heuristics, it is not foolproof. On days that are hazier than normal, our eyes will tend to trick our minds into thinking that things are more distant than they actually are. Because the resulting distortion poses few dangers for most of us, we can safely ignore it. For airline pilots, though, the distortion can be catastrophic. That's why pilots are trained to use objective measures of distance in addition to their vision.

Researchers have identified a whole series of such flaws in the way we think in making decisions. Some, like the heuristic for clarity, are sensory misperceptions. Others take the form of biases. Others appear simply as irrational anomalies in our thinking. What makes all these traps so dangerous is their invisibility. Because they are hardwired into our thinking process, we fail to recognize them—even as we fall right into them.

For executives, whose success hinges on the many day-to-day decisions they make or approve, the psychological traps are especially dangerous. They can undermine everything from new-product development to acquisition and divestiture strategy to succession planning. While no one can rid his or her mind of these ingrained flaws, anyone can follow the lead of airline pilots and learn to understand the traps and compensate for them.

In this article, we examine a number of well-documented psychological traps that are particularly likely to undermine business decisions. In addition to reviewing the causes and manifestations of these traps, we offer some specific ways managers can guard against them. It's important to remember, though, that the best defense is always awareness. Executives who attempt to familiarize themselves with these traps and the diverse forms they take will be better able to ensure that the decisions they make are sound and that the recommendations proposed by subordinates or associates are reliable.

The Anchoring Trap

How would you answer these two questions?

Is the population of Turkey greater than 35 million?

What's your best estimate of Turkey's population?

If you're like most people, the figure of 35 million cited in the first question (a figure we chose arbitrarily) influenced your answer to the second question. Over the years, we've posed those questions to many groups of people. In half the cases, we used 35 million in the first question; in the other half, we used 100 million. Without fail, the answers to the second question increase by many millions when the larger figure is used in the first question. This simple test illustrates the common and often pernicious mental phenomenon known as *anchoring*. When considering a decision, the mind gives disproportionate weight to the first information it receives. Initial impressions, estimates, or data anchor subsequent thoughts and judgments.

Anchors take many guises. They can be as simple and seemingly innocuous as a comment offered by a colleague or a statistic appearing in the morning newspaper. They can be as insidious as a stereotype about a person's skin color, accent, or dress. In business, one of the most common types of anchors is a past event or trend. A marketer attempting to project the sales of a product for the coming year often begins by looking at the sales volumes for past years. The old numbers become anchors, which the forecaster then adjusts based on other factors. This approach, while it may lead to a reasonably accurate estimate, tends to give too much weight to past events and not enough weight to other factors. In situations characterized by rapid changes in the marketplace, historical anchors can lead to poor forecasts and, in turn, misguided choices.

Because anchors can establish the terms on which a decision will be made, they are often used as a bargaining tactic by savvy negotiators. Consider the experience of a large consulting firm that was searching for new office space in San Francisco. Working with a commercial real-estate broker, the firm's partners identified a building that met all their criteria, and they set up a meeting with the building's owners. The owners opened the meeting by laying out the terms of a proposed contract: a 10-year lease; an initial monthly price of $2.50 per square foot; annual price increases at the prevailing inflation rate; all interior improvements to be the tenant's responsibility; an option for the tenant to extend the lease for 10 additional years under the same terms. Although the price was at the high end of current market rates, the consultants made a relatively modest counteroffer. They proposed an initial

> **Psychological traps can undermine everything from new-product development to acquisition and divestiture strategy to succession planning.**

price in the midrange of market rates and asked the owners to share in the renovation expenses, but they accepted all the other terms. The consultants could have been much more aggressive and creative in their counterproposal—reducing the initial price to the low end of market rates, adjusting rates biennially rather than annually, putting a cap on the increases, defining different terms for extending the lease, and so forth—but their thinking was guided by the owners' initial proposal. The consultants had fallen into the anchoring trap, and as a result, they ended up paying a lot more for the space than they had to.

What can you do about it? The effect of anchors in decision-making has been documented in thousands of experiments. Anchors influence the decisions not only of managers, but also of accountants and engineers, bankers and lawyers, consultants and stock analysts. No one can avoid their influence; they're just too widespread. But managers who are aware of the dangers of anchors can reduce their impact by using the following techniques:

- Always view a problem from different perspectives. Try using alternative starting points and approaches rather than sticking with the first line of thought that occurs to you.
- Think about the problem on your own before consulting others to avoid becoming anchored by their ideas.
- Be open-minded. Seek information and opinions from a variety of people to widen your frame of reference and to push your mind in fresh directions.
- Be careful to avoid anchoring your advisers, consultants, and others from whom you solicit information and counsel. Tell them as little as possible about your own ideas, estimates, and tentative decisions. If you reveal too much, your own preconceptions may simply come back to you.
- Be particularly wary of anchors in negotiations. Think through your position before any negotiation begins in order to avoid being anchored by the other party's initial proposal. At the same time, look for opportunities to use anchors to your own advantage—if you're the seller, for example, suggest a high, but defensible, price as an opening gambit.

The Status-Quo Trap

We all like to believe that we make decisions rationally and objectively. But the fact is, we all carry biases, and those biases influence the choices we make. Decision-makers display, for example, a strong bias toward alternatives that perpetuate the status quo. On a broad scale, we can see this tendency whenever a radically new product is introduced. The first automobiles, revealingly called "horseless carriages," looked very much like the buggies they replaced. The first "electronic newspapers" appearing on the World Wide Web looked very much like their print precursors.

On a more familiar level, you may have succumbed to this bias in your personal financial decisions. People sometimes, for example, inherit shares of stock that they would never have bought themselves. Although it would be a straightforward, inexpensive proposition to sell those shares and put the money into a different investment, a surprising number of people don't sell.

Idea in Brief

WHY IT MATTERS
Making business decisions is your most crucial job—and your riskiest. New-product development, mergers and acquisitions, executive hirings—bad decisions about any of these can ruin your company and your career.

WHY IT HAPPENS
Where do bad decisions come from? Mostly from distortions and biases—a whole series of mental flaws—that sabotage our reasoning. We all fall right into these psychological traps because they're unconscious—hardwired into the way we all think.

WHAT TO DO
Though we can't get rid of them, we can learn to be alert to them and to compensate for them—monitoring our decision-making so that our thinking traps don't cause judgment disasters.

They find the status quo comfortable, and they avoid taking action that would upset it. "Maybe I'll rethink it later," they say. But "later" is usually never.

The source of the status-quo trap lies deep within our psyches, in our desire to protect our egos from damage. Breaking from the status quo means taking action, and when we take action, we take responsibility, thus opening ourselves to criticism and to regret. Not surprisingly, we naturally look for reasons to do nothing. Sticking with the status quo represents, in most cases, the safer course because it puts us at less psychological risk.

Many experiments have shown the magnetic attraction of the status quo. In one, a group of people were randomly given one of two gifts of approximately the same value—half received a mug, the other half a Swiss chocolate bar. They were then told that they could easily exchange the gift they received for the other gift. While you might expect that about half would have wanted to make the exchange, only one in 10 actually did. The status quo exerted its power even though it had been arbitrarily established only minutes before.

Other experiments have shown that the more choices you are given, the more pull the status quo has. More people will, for instance, choose the status quo when there are two alternatives to it rather than one: A and B instead of just A. Why? Choosing between A and B requires additional effort; selecting the status quo avoids that effort.

In business, where sins of commission (doing something) tend to be punished much more severely than sins of omission (doing nothing), the status quo holds a particularly strong attraction. Many mergers, for example, founder because the acquiring company avoids taking swift action to impose a new, more appropriate management structure on the acquired company. "Let's not rock the boat right now," the typical reasoning goes. "Let's wait until the situation stabilizes." But as time passes, the existing structure becomes more entrenched, and altering it becomes harder, not easier. Having failed to seize the occasion when change would have been expected, management finds itself stuck with the status quo.

What can you do about it? First of all, remember that in any given decision, maintaining the status quo may indeed be the best choice, but you don't want to choose it just because it is comfortable. Once you become aware of the status-quo trap, you can use these techniques to lessen its pull:

- Always remind yourself of your objectives and examine how they would be served by the status quo. You may find that elements of the current situation act as barriers to your goals.
- Never think of the status quo as your only alternative. Identify other options and use them as counterbalances, carefully evaluating all the pluses and minuses.
- Ask yourself whether you would choose the status-quo alternative if, in fact, it weren't the status quo.
- Avoid exaggerating the effort or cost involved in switching from the status quo.
- Remember that the desirability of the status quo will change over time. When comparing alternatives, always evaluate them in terms of the future as well as the present.
- If you have several alternatives that are superior to the status quo, don't default to the status quo just because you're having a hard time picking the best alternative. Force yourself to choose.

The Sunk-Cost Trap

Another of our deep-seated biases is to make choices in a way that justifies past choices, even when the past choices no longer seem valid. Most of us have fallen into this trap. We may have refused, for example, to sell a stock or a mutual fund at a loss, forgoing other, more attractive investments. Or we may have poured enormous effort into improving the performance of an employee whom we knew we shouldn't have hired in the first place. Our past decisions become what economists term *sunk costs*—old investments of time or money that are now irrecoverable. We know, rationally, that sunk costs are irrelevant to the present decision, but nevertheless they prey on our minds, leading us to make inappropriate decisions.

Why can't people free themselves from past decisions? Frequently, it's because they are unwilling, consciously or not, to admit to a mistake. Acknowledging a poor decision in one's personal life may be purely a private matter, involving only one's self-esteem, but in business, a bad decision is often a very public matter, inviting critical comments from colleagues or bosses. If you fire a poor performer whom you hired, you're making a public admission of poor judgment. It seems psychologi-

Decision-makers display a strong bias toward alternatives that perpetuate the status quo.

cally safer to let him or her stay on, even though that choice only compounds the error.

The sunk-cost bias shows up with disturbing regularity in banking, where it can have particularly dire consequences. When a borrower's business runs into trouble, a lender will often advance additional funds in hopes of providing the business with some breathing room to recover. If the business does have a good chance of coming back, that's a wise investment. Otherwise, it's just throwing good money after bad.

One of us helped a major U.S. bank recover after it made many bad loans to foreign businesses. We found that the bankers responsible for originating the problem loans were far more likely to advance additional funds—repeatedly, in many cases—than were bankers who took over the accounts after the original loans were made. Too often, the original bankers' strategy—and loans—ended in failure. Having been trapped by an escalation of commitment, they had tried, consciously or unconsciously, to protect their earlier, flawed decisions. They had fallen victim to the sunk-cost bias. The bank finally solved the problem by instituting a policy requiring that a loan be immediately reassigned to another banker as soon as any problem arose. The new banker was able to take a fresh, unbiased look at the merit of offering more funds.

Sometimes a corporate culture reinforces the sunk-cost trap. If the penalties for making a decision that leads to an unfavorable outcome are overly severe, managers will be motivated to let failed projects drag on endlessly—in the vain hope that they'll somehow be able to transform them into successes. Executives should recognize that, in an uncertain world where unforeseeable events are common, good decisions can sometimes lead to bad outcomes. By acknowledging that some good ideas will end in failure, executives will encourage people to cut their losses rather than let them mount.

What can you do about it? For all decisions with a history, you will need to make a conscious effort to set aside any sunk costs—whether psychological or economic—that will muddy your thinking about the choice at hand. Try these techniques:

- Seek out and listen carefully to the views of people who were uninvolved with the earlier decisions and who are hence unlikely to be committed to them.
- Examine why admitting to an earlier mistake distresses you. If the problem lies in your own wounded self-esteem, deal with it head-on. Remind yourself that even smart choices can have bad consequences, through no fault of the original decision-maker, and that even the best and most experienced managers are not immune to errors in judgment. Remember the wise words of Warren Buffett: "When you find yourself in a hole, the best thing you can do is stop digging."
- Be on the lookout for the influence of sunk-cost biases in the decisions and recommendations made by your subordinates. Reassign responsibilities when necessary.
- Don't cultivate a failure-fearing culture that leads employees to perpetuate their mistakes. In rewarding people, look at the quality of their decision-making (taking into account what was known at the time their decisions were made), not just the quality of the outcomes.

The Confirming-Evidence Trap

Imagine that you're the president of a successful midsize U.S. manufacturer considering whether to call off a planned plant expansion. For a while you've been concerned that your company won't be able to sustain the rapid pace of growth of its exports. You fear that the value of the U.S. dollar will strengthen in coming months, making your goods more costly for overseas consumers and dampening demand. But before you put the brakes on the plant expansion, you decide to call up an acquaintance, the chief executive of a similar company that recently mothballed a new factory, to check her reasoning. She presents a strong case that other currencies are about to weaken significantly against the dollar. What do you do?

You'd better not let that conversation be the clincher, because you've probably just fallen victim to the confirming-evidence bias. This bias leads us to seek out information that supports our existing instinct or point of view while avoiding information that contradicts it. What, after all, did you expect your acquaintance to give, other than a strong argument in favor of her own decision? The confirming-evidence bias not only affects where we go to collect evidence but also how we interpret the evidence we do receive, leading us to give too much weight to supporting information and too little to conflicting information.

■■ **We tend to subconsciously decide what to do before figuring out why we want to do it.**

In one psychological study of this phenomenon, two groups—one opposed to and one supporting capital punishment—each read two reports of carefully conducted research on the effectiveness of the death penalty as a deterrent to crime. One report concluded that the death penalty was effective; the other concluded it was not. Despite being exposed to solid scientific information supporting counterarguments, the members of both groups became even more convinced of the validity of their own position after reading both reports. They automatically accepted the supporting information and dismissed the conflicting information.

There are two fundamental psychological forces at work here. The first is our tendency to subconsciously decide what we want to do before we figure out why we want to do it. The second is our inclination to be more engaged by things we like than by things we dislike—a tendency well-documented even in babies. Naturally, then, we are drawn to information that supports our subconscious leanings.

What can you do about it? It's not that you shouldn't make the choice you're subconsciously drawn to. It's just that you want to be sure it's the smart choice. You need to put it to the test. Here's how:

- Always check to see whether you are examining all the evidence with equal rigor. Avoid the tendency to accept confirming evidence without question.
- Get someone you respect to play devil's advocate, to argue against the decision you're contemplating. Better yet, build the counterarguments yourself. What's the strongest reason to do something else? The second strongest reason? The third? Consider the position with an open mind.
- Be honest with yourself about your motives. Are you really gathering information to help you make a smart choice, or are you just looking for evidence confirming what you think you'd like to do?
- In seeking the advice of others, don't ask leading questions that invite confirming evidence. And if you find that an adviser always seems to support your point of view, find a new adviser. Don't surround yourself with yes-men.

The Framing Trap

The first step in making a decision is to frame the question. It's also one of the most dangerous steps. The way a problem is framed can profoundly influence the choices you make. In a case involving automobile insurance, for example, framing made a $200 million difference. To reduce insurance costs, two neighboring states, New Jersey and Pennsylvania, made similar changes in their laws. Each state gave drivers a new option: By accepting a limited right to sue, they could lower their premiums. But the two states framed the choice in very different ways: In New Jersey, you automatically got the limited right to sue unless you specified otherwise; in Pennsylvania, you got the full right to sue unless you specified otherwise. The different frames established different status quos, and, not surprisingly, most consumers defaulted to the status quo. As a result, in New Jersey about 80% of drivers chose the limited right to sue, but in Pennsylvania only 25% chose it. Because of the way it framed the choice, Pennsylvania failed to gain approximately $200 million in expected insurance and litigation savings.

The framing trap can take many forms, and as the insurance example shows, it is often closely related to other psychological traps. A frame can establish the status quo or introduce an anchor. It can highlight sunk costs or lead you toward confirming evidence. Decision researchers have documented two types of frames that distort decision-making with particular frequency:

Frames as gains versus losses. In a study patterned after a classic experiment by decision researchers Daniel Kahneman and Amos Tversky, one of us posed the following problem to a group of insurance professionals:

You are a marine property adjuster charged with minimizing the loss of cargo on three insured barges that sank yesterday off the coast of Alaska. Each barge holds $200,000 worth of cargo, which will be lost if not salvaged within 72 hours. The owner of a local marine-salvage company gives you two options, both of which will cost the same:

Plan A. *This plan will save the cargo of one of the three barges, worth $200,000.*

Plan B. *This plan has a one-third probability of saving the cargo on all three barges, worth $600,000, but has a two-thirds probability of saving nothing.*

Which plan would you choose?

If you are like 71% of the respondents in the study, you chose the "less risky" Plan A, which will save one barge for sure. Another group in the study, however, was asked to choose between alternatives C and D:

Plan C. *This plan will result in the loss of two of the three cargoes, worth $400,000.*

Plan D. *This plan has a two-thirds probability of resulting in the loss of all three cargoes and the entire $600,000 but has a one-third probability of losing no cargo.*

Faced with this choice, 80% of these respondents preferred Plan D.

The pairs of alternatives are, of course, precisely equivalent—Plan A is the same as Plan C, and Plan B is the same as Plan D—they've just been framed in different ways. The strikingly different responses reveal that people are risk averse when a problem is posed in terms of gains (barges saved) but risk seeking when a problem is posed in terms of avoiding losses (barges lost). Furthermore, they tend to adopt the frame as it is presented to them rather than restating the problem in their own way.

Framing with different reference points. The same problem can also elicit very different responses when frames use different reference points. Let's say you have $2,000 in your checking account and you are asked the following question:

Would you accept a 50/50 chance of either losing $300 or winning $500?

Would you accept the chance? What if you were asked this question:

Would you prefer to keep your checking account balance of $2,000 or to accept a 50/50 chance of having either $1,700 or $2,500 in your account?

Once again, the two questions pose the same problem. While your answers to both questions should, rationally speaking, be the same, studies have shown that many people would refuse the 50/50 chance in the first question but accept it in the second. Their different reactions result from the different reference points presented in the two frames. The first frame, with its reference point of zero, emphasizes incremental gains and losses, and the thought of losing triggers a conservative response in many people's minds. The second frame, with its reference point of $2,000, puts things into perspective by emphasizing the real financial impact of the decision.

What can you do about it?

A poorly framed problem can undermine even the best-considered decision. But any adverse effect of framing can be limited by taking the following precautions:

- Don't automatically accept the initial frame, whether it was formulated by you or by someone else. Always try to reframe the problem in various ways. Look for distortions caused by the frames.
- Try posing problems in a neutral, redundant way that combines gains and losses or embraces different reference points. For example: *Would you accept a 50/50 chance of either losing $300, resulting in a bank balance of $1,700, or winning $500, resulting in a bank balance of $2,500?*
- Think hard throughout your decision-making process about the framing of the problem. At points throughout the process, particularly near the end, ask yourself how your thinking might change if the framing changed.
- When others recommend decisions, examine the way they framed the problem. Challenge them with different frames.

The Estimating and Forecasting Traps

Most of us are adept at making estimates about time, distance, weight, and volume. That's because we're constantly making judgments about these variables and getting quick feedback about the accuracy of those judgments. Through daily practice, our minds become finely calibrated.

Making estimates or forecasts about uncertain events, however, is a different matter. While managers continually make such estimates and forecasts, they rarely get clear feedback about their accuracy. If you judge, for example, that the likelihood of the price of oil falling to less than $15 a barrel one year hence is about 40% and the price does indeed fall to that level, you can't tell whether you were right or wrong about the probability you estimated. The only way to gauge your accuracy would be to keep track of many, many similar judgments to see if, after the fact, the events you thought had a 40% chance of occurring actually did occur 40% of the time. That would require a great deal of data, carefully tracked over a long period of time. Weather forecasters and bookmakers have the opportunities and incentives to maintain such records, but the rest of us don't. As a result, our minds never become calibrated for making estimates in the face of uncertainty.

All of the traps we've discussed so far can influence the way we make decisions when confronted with uncertainty. But there's another set of traps that can have a particularly distorting effect in uncertain situations because they cloud our ability to assess probabilities. Let's look at three of the most common of these uncertainty traps:

The overconfidence trap. Even though most of us are not very good at making estimates or forecasts, we actually tend to be overconfident about our accuracy. That can lead to errors in judgment and, in turn, bad decisions. In one series of tests, people were asked to forecast the next week's closing value for the Dow Jones Industrial Average. To account for uncertainty, they were then asked to estimate a range within which the closing value would likely fall. In picking the top number of the range, they were asked to choose a high estimate they thought had only a 1% chance of being exceeded by the closing value. Similarly, for the bottom end, they were told to pick a low estimate for which they thought there would be only a 1% chance of the closing value falling below it. If they were good at judging their forecasting accuracy, you'd expect the participants to be wrong only about 2% of the time. But hundreds of tests have shown that the actual Dow Jones averages fell outside the forecast ranges 20% to 30% of the time. Overly confident about the accuracy of their predictions, most people set too narrow a range of possibilities.

Think of the implications for business decisions, in which major initiatives and investments often hinge on ranges of estimates. If managers underestimate the high end or overestimate the low end of a crucial variable, they may miss attractive opportunities or expose themselves to far greater risk than they realize. Much money has been wasted on ill-fated product-development projects because managers did not accurately account for the possibility of market failure.

The prudence trap. Another trap for forecasters takes the form of overcautiousness, or prudence. When faced with high-stakes decisions, we tend to adjust our estimates or forecasts "just to be on the safe side." Many years ago, for example, one of the Big Three U.S. automakers was deciding how many of a new-model car to produce in anticipation of its busiest sales season. The market-planning department, responsible for the decision, asked other departments to supply forecasts of key variables such as anticipated sales, dealer inventories, competitor actions, and costs. Knowing the purpose of the estimates, each department slanted its forecast to favor building more cars—"just to be safe." But the market planners took the numbers at face value and then made their own "just to be safe" adjustments. Not surprisingly, the number of cars produced far exceeded demand, and the company took six months to sell off the surplus, resorting in the end to promotional pricing.

Policy makers have gone so far as to codify overcautiousness in formal decision procedures. An extreme example is the methodology of "worst-case analysis," which was once popular in the design of weapons systems and is still used in certain engineering and regulatory settings. Using this approach, engineers designed weapons to operate under the worst possible combination of circumstances, even though the odds of those circumstances actually coming to pass were infinitesimal. Worst-case analysis added enormous costs with no practical benefit (in fact, it often backfired by touching off an arms race), proving that too much prudence can sometimes be as dangerous as too little.

The recallability trap. Even if we are neither overly confident nor unduly prudent, we can still fall into a trap when making estimates or forecasts. Because we frequently base our predictions about future events on our memory of past events, we can be overly influenced by dramatic events—those that leave a strong impression on our memory. We all, for example, exaggerate the probability of rare but catastrophic occurrences such as plane crashes because they get disproportionate attention in the media. A dramatic or traumatic event in your own life can also distort your thinking. You will assign a higher probability to traffic accidents if you have passed one on the way to work, and you will assign a higher chance of someday dying of cancer yourself if a close friend has died of the disease.

In fact, anything that distorts your ability to recall events in a balanced way will distort your probability assessments. In one experiment, lists of well-known men and women were read to different groups of people. Unbeknownst to the subjects, each list had an equal number of men and women, but on some lists the men were more famous than the women while on others the women were more famous. Afterward, the participants were asked to estimate the percentages of men and women on each list. Those who had heard the list with the more famous men thought there were more men on the list, while those who had heard the one with the more famous women thought there were more women.

■■ **A dramatic or traumatic event in your own life can also distort your thinking.**

Corporate lawyers often get caught in the recallability trap when defending liability suits. Their decisions about whether to settle a claim or take it to court usually hinge on their assessments of the possible outcomes of a trial. Because the media tend to aggressively publicize massive damage awards (while ignoring other, far more common trial outcomes), lawyers can overestimate the probability of a large award for the plaintiff. As a result, they offer larger settlements than are actually warranted.

What can you do about it? The best way to avoid the estimating and forecasting traps is to take a very disciplined approach to making forecasts and judging probabilities. For each of the three traps, some additional precautions can be taken:

- To reduce the effects of overconfidence in making estimates, always start by considering the extremes, the low and high ends of the possible range of values. This will help you avoid being anchored by an initial estimate. Then challenge your estimates of the extremes. Try to imagine circumstances where the actual figure would fall below your low or above your high, and adjust your range accordingly. Challenge the estimates of your subordinates and advisers in a similar fashion. They're also susceptible to overconfidence.
- To avoid the prudence trap, always state your estimates honestly and explain to anyone who will be using them that they have not been adjusted. Emphasize the need for honest input to anyone who will be supplying you with estimates. Test estimates over a reasonable range to assess their impact. Take a second look at the more sensitive estimates.
- To minimize the distortion caused by variations in recallability, carefully examine all your assumptions to ensure they're not unduly influenced by your memory. Get actual statistics whenever possible. Try not to be guided by impressions.

Forewarned Is Forearmed

When it comes to business decisions, there's rarely such a thing as a no-brainer. Our brains are always at work, sometimes, unfortunately, in ways that hinder rather than help us. At every stage of the decision-making process, misperceptions, biases, and other tricks of the mind can influence the choices we make. Highly complex and important decisions are the most prone to distortion because they tend to involve the most assumptions, the most estimates, and the most inputs from the most people. The higher the stakes, the higher the risk of being caught in a psychological trap.

The traps we've reviewed can all work in isolation. But, even more dangerous, they can work in concert, amplifying one another. A dramatic first impression might anchor our thinking, and then we might selectively seek out confirming evidence to justify our initial inclination. We make a hasty decision, and that decision establishes a new status quo. As our sunk costs mount, we become trapped, unable to find a propitious time to seek out a new and possibly better course. The psychological miscues cascade, making it harder and harder to choose wisely.

As we said at the outset, the best protection against all psychological traps—in isolation or in combination—is awareness. Forewarned is forearmed. Even if you can't eradicate the distortions ingrained into the way your mind works, you can build tests and disciplines into your decision-making process that can uncover errors in thinking before they become errors in judgment. And taking action to understand and avoid psychological traps can have the added benefit of increasing your confidence in the choices you make.

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Outsmart Your Own Biases

→ by JACK B. SOLL, KATHERINE L. MILKMAN, and JOHN W. PAYNE

SUPPOSE YOU'RE EVALUATING a job candidate to lead a new office in a different country. On paper this is by far the most qualified person you've seen. Her responses to your interview questions are flawless. She has impeccable social skills. Still, something doesn't feel right. You can't put your finger on what—you just have a sense. How do you decide whether to hire her?

You might trust your intuition, which has guided you well in the past, and send her on her way. That's what most executives say they'd do when we pose this scenario in our classes on managerial decision-making. The problem is, unless you occasionally go against your gut, you haven't put your intuition to the test. You can't really know it's helping you make good choices if you've never seen what happens when you ignore it.

It can be dangerous to rely too heavily on what experts call System 1 thinking—automatic judgments that stem from associations stored in memory—instead of logically working through the information that's available. No doubt, System 1 is critical to survival. It's what makes you swerve to avoid a car accident. But as the psychologist Daniel Kahneman has shown, it's also a common source of bias that can result in poor decision-making, because our intuitions frequently lead us astray. Other sources of bias involve flawed System 2 thinking—essentially, deliberate reasoning gone awry. Cognitive limitations or laziness, for example, might cause people to focus intently on the wrong things or fail to seek out relevant information.

We are all susceptible to such biases, especially when we're fatigued, stressed, or multitasking. Just think of a CEO who's negotiating a merger while also under pressure from lawyers to decide on a plant closing and from colleagues to manage layoffs. In situations like this, we're far from decision-ready—we're mentally, emotionally, and physically spent. We cope by relying even more heavily on intuitive, System 1 judgments and less on careful reasoning. Decision-making becomes faster and simpler, but quality often suffers.

One solution is to delegate and to fight bias at the organizational level, using choice architecture to modify the environment in which decisions are made. (See "Leaders as Decision Architects," HBR, May 2015.) Much of the time, though, delegation isn't appropriate, and it's all on you, the manager, to decide. When that's the case, you can outsmart your own biases. You start by understanding where they're coming from: excessive reliance on intuition, defective reasoning, or both. In this article, we describe some of the most stubborn biases out there: tunnel vision about future scenarios, about objectives, and about options. But awareness alone isn't enough, as Kahneman, reflecting on his own experiences, has pointed out. So we also provide strategies for overcoming biases, gleaned from the latest research on the psychology of judgment and decision-making.

First, though, let's return to that candidate you're considering. Perhaps your misgivings aren't really about her but about bigger issues you haven't yet articulated. What if the business environment in the new region isn't as promising as forecast? What if employees have problems collaborating across

Illustration by KATE OCTOBER

borders or coordinating with the main office? Answers to such questions will shape decisions to scale back or manage continued growth, depending on how the future unfolds. So you should think through contingencies now, when deciding whom to hire.

But asking those bigger, tougher questions does not come naturally. We're cognitive misers—we don't like to spend our mental energy entertaining uncertainties. It's easier to seek closure, so we do. This hems in our thinking, leading us to focus on *one possible future* (in this case, an office that performs as projected), *one objective* (hiring someone who can manage it under those circumstances), and *one option in isolation* (the candidate in front of us). When this narrow thinking weaves a compelling story, System 1 kicks in: Intuition tells us, prematurely, that we're ready to decide, and we venture forth with great, unfounded confidence. To "debias" our decisions, it's essential to broaden our perspective on all three fronts.

Thinking About the Future

Nearly everyone thinks too narrowly about possible outcomes. Some people make one best guess and stop there ("If we build this factory, we will sell 100,000 more cars a year"). Others at least try to hedge their bets ("There is an 80% chance we will sell between 90,000 and 110,000 more cars").

Unfortunately, most hedging is woefully inadequate. When researchers asked hundreds of chief financial officers from a variety of industries to forecast yearly returns for the S&P 500 over a nine-year horizon, their 80% ranges were right only one-third of the time. That's a terribly low rate of accuracy for a group of executives with presumably vast knowledge of the U.S. economy. Projections are even further off the mark when people assess their own plans, partly because their desire to succeed skews their interpretation of the data. (As former Goldman Sachs CFO David Viniar once put it, "The lesson you always learn is that your definition of extreme is not extreme enough.")

Because most of us tend to be highly overconfident in our estimates, it's important to "nudge" ourselves to allow for risk and uncertainty. The following methods are especially useful.

Make three estimates. What will be the price of crude oil in January 2017? How many new homes will be built in the United States next year? How many memory chips will your customers order next month? Such forecasts shape decisions about whether to enter a new market, how many people to hire, and how many units to produce. To improve your accuracy, work up at least three estimates—low, medium, and high—instead of just stating a range. People give wider ranges when they think about their low and high estimates separately, and coming up with three numbers prompts you to do that.

Your low and high guesses should be unlikely but still within the realm of possibility. For example, on the low end, you might say, "There's a 10% chance that we'll sell fewer than 10,000 memory chips next month." And on the high end, you might foresee a 10% chance that sales will exceed 50,000. With this approach, you're less likely to get blindsided by events at either extreme—and you can plan for them. (How will you ramp up production if demand is much higher than anticipated? If it's lower, how will you deal with excess inventory and keep the cash flowing?) Chances are, your middle estimate will bring you closer to reality than a two-number range would.

Think twice. A related exercise is to make two forecasts and take the average. For instance, participants in one study made their best guesses about dates in history, such as the year the cotton gin was invented. Then, asked to assume that their first answer was wrong, they guessed again. Although one guess was generally no closer than the other, people could harness the "wisdom of the inner crowd" by averaging their guesses; this strategy was more accurate than relying on either estimate alone. Research also shows that when people think more than once about a problem, they often come at it with a different perspective, adding valuable information. So tap your own inner crowd and allow time for reconsideration: Project an outcome, take a break (sleep on it if you can), and then come back and project another. Don't refer to your previous estimate—you'll only anchor yourself and limit your ability to achieve new insights. If you can't avoid thinking about your previous estimate, then assume it was wrong and consider reasons that support a different guess.

Use premortems. In a postmortem, the task is typically to understand the cause of a past failure. In a *premortem*, you imagine a future failure and then explain the cause. This technique, also called prospective hindsight, helps

Because most of us tend to be highly overconfident in our estimates, it's important to "nudge" ourselves to allow for risk and uncertainty.

you identify potential problems that ordinary foresight won't bring to mind. If you're a manager at an international retailer, you might say: "Let's assume it's 2025, and our Chinese outlets have lost money every year since 2015. Why has that happened?"

Thinking in this way has several benefits. First, it tempers optimism, encouraging a more realistic assessment of risk. Second, it helps you prepare backup plans and exit strategies. Third, it can highlight factors that will influence success or failure, which may increase your ability to control the results.

Perhaps Home Depot would have benefited from a premortem before deciding to enter China. By some accounts, the company was forced to close up shop there because it learned too late that China isn't a do-it-yourself market. Apparently, given how cheap labor is, middle-class Chinese consumers prefer to contract out their repairs. Imagining low demand in advance might have led to additional market research (asking Chinese consumers how they solve their home-repair problems) and a shift from do-it-yourself products to services.

Take an outside view. Now let's say you're in charge of a new-product development team. You've carefully devised a six-month plan—about which you are very confident—for initial design, consumer testing, and prototyping. And you've carefully worked out what you'll need to manage the team optimally and why you expect to succeed. This is what Dan Lovallo and Daniel Kahneman call taking an "inside view" of the project, which typically results in excessive optimism. You need to complement this perspective with an outside view—one that considers what's happened with similar ventures and what advice you'd give someone else if you weren't involved in the endeavor. Analysis might show, for instance, that only 30% of new products in your industry have turned a profit within five years. Would you advise a colleague or a friend to accept a 70% chance of failure? If not, don't proceed unless you've got evidence that your chances of success are substantially better than everyone else's.

An outside view also prevents the "planning fallacy"—spinning a narrative of total success and managing for that, even though your odds of failure are actually pretty high. If you take a cold, hard look at the costs and the time required to develop new products in your market, you might see that they far outstrip your optimistic forecast, which in turn might lead you to change or scrap your plan.

Thinking About Objectives

It's important to have an expansive mindset about your objectives, too. This will help you focus when it's time to pick your most suitable options. Most people unwittingly limit themselves by allowing only a subset of worthy goals to guide them, simply because they're unaware of the full range of possibilities.

That's a trap the senior management team at Seagate Technology sought to avoid in the early 1990s, when the company was the world's largest manufacturer of disk drives. After acquiring a number of firms, Seagate approached the decision analyst Ralph Keeney for help in figuring out how to integrate them into a single organization. Keeney conducted individual interviews with 12 of Seagate's top executives, including the CEO, to elicit the firm's goals. By synthesizing their responses, he identified eight general objectives (such as creating the best software organization and providing value to customers) and 39 specific ones (such as developing better product standards and reducing customer costs). Tellingly, each executive named, on average, only about a third

Idea in Brief

THE PROBLEM
Cognitive biases muddy our decision-making. We rely too heavily on intuitive, automatic judgments, and even when we try to use reason, our logic is often lazy or flawed.

THE CAUSE
Instead of exploring risks and uncertainties, we seek closure—it's much easier. This narrows our thinking about what could happen in the future, what our goals are, and how we might achieve them.

THE SOLUTION
By knowing which biases tend to trip us up and using certain tricks and tools to outsmart them, we can broaden our thinking and make better choices.

How to Prevent Misweighting

When we assign too much or too little significance to the information we have, we're bound to go off course in our decision-making. It's a problem that cuts across the different types of bias, but here are some tactics that can help.

Blinding improves judgment by eliminating the influence of stereotypes, idiosyncratic associations, and irrelevant factors.

EXAMPLES

- Orchestras have players audition behind a screen to prevent gender bias. After this became standard practice, female membership skyrocketed from 5% in 1970 to nearly 40% today.
- Many professors ensure fair grading by covering up names (or asking an assistant to do so) before evaluating papers and other assignments.

Checklists reduce errors due to forgetfulness and other memory distortions by directing our attention to what's most relevant.

EXAMPLES

- Venture capitalists often use a set list of criteria to vet entrepreneurial pitches.
- Savvy hiring managers assess candidates by conducting structured interviews (they're much more accurate predictors of performance than open-ended interviews). Because there's a standard way to rate responses, people can be easily compared on various dimensions.

Algorithms ensure consistency by predetermining how much emphasis each piece of information will get.*

EXAMPLES

- Banks and other lenders use scoring algorithms to predict consumers' creditworthiness.
- Taking a page from professional baseball, employers are starting to use algorithms in hiring. One study showed that a simple equation for evaluating applicants outperformed human judgment by at least 25%.

*Since algorithms reflect the biases of the experts who build them, it's best to combine them with other debiasing tools.

of the specific objectives, and only one person cited more than half. But with all the objectives mapped out, senior managers had a more comprehensive view and a shared framework for deciding which opportunities to pursue. If they hadn't systematically reflected on their goals, some of those prospects might have gone undetected.

Early in the decision-making process, you want to generate many objectives. Later you can sort out which ones matter most. Seagate, for example, placed a high priority on improving products because that would lead to more satisfied customers, more sales, and ultimately greater profits. Of course, there are other paths to greater profits, such as developing a leaner, more efficient workforce. Articulating, documenting, and organizing your goals helps you see those paths clearly so that you can choose the one that makes the most sense in light of probable outcomes.

Take these steps to ensure that you're reaching high—and far—enough with your objectives.

Seek advice. Round out your perspective by looking to others for ideas. In one study, researchers asked MBA students to list all their objectives for an internship. Most mentioned seven or eight things, such as "improve my attractiveness for full-time job offers" and "develop my leadership skills." Then they were shown a master list of everyone's objectives and asked which ones they considered personally relevant. Their own lists doubled in size as a result—and when participants ranked their goals afterward, those generated by others scored as high as those they had come up with themselves.

Outline objectives on your own before seeking advice so that you don't get "anchored" by what others say. And don't anchor your advisers by leading with what you already believe ("I think our new CFO needs to have experience with acquisitions—what do you think?"). If you are making a decision jointly with others, have people list their goals independently and then combine the lists, as Keeney did at Seagate.

Cycle through your objectives. Drawing on his consulting work and lab experiments, Keeney has found that looking at objectives one by one rather than all at once helps people come up with more alternatives. Seeking a solution that checks off every single box is too difficult—it paralyzes the decision-maker.

So, when considering your goals for, say, an off-site retreat, tackle one at a time. If you want people to exchange lessons from the past year, develop certain leadership skills, and deepen their understanding of strategic priorities, thinking about these aims separately can help you achieve them more effectively. You might envision multiple sessions or even different events, from having expert facilitators lead brainstorming sessions to attending a leadership seminar at a top business school. Next, move on to combinations of objectives. To develop leadership skills and entertain accompanying family members, you might consider an Outward Bound–type experience. Even if you don't initially like an idea, write it down—it may spark additional ideas that satisfy even more objectives.

Thinking About Options

Although you need a critical mass of options to make sound decisions, you also need to find strong contenders—at least two but ideally three to five. Of course, it's easy to give in to the tug of System 1 thinking and generate a false choice to rationalize your intuitively favorite option (like a parent who asks an energetic toddler, "Would you like one nap or two today?"). But then you're just duping yourself. A decision can be no better than the best option under consideration. Even System 2 thinking is often too narrow. Analyzing the pros and cons of several options won't do you any good if you've failed to identify the best ones.

Unfortunately, people rarely consider more than one at a time. Managers tend to frame decisions as yes-or-no questions instead of generating alternatives. They might ask, for instance, "Should we expand our retail furniture business into Brazil?" without questioning whether expansion is even a good idea and whether Brazil is the best place to go.

Yes-no framing is just one way we narrow our options. Others include focusing on one type of solution to a problem (what psychologists call functional fixedness) and being constrained by our assumptions about what works and what doesn't. All these are signs of cognitive rigidity, which gets amplified when we feel threatened by time pressure, negative emotions, exhaustion, and other stressors. We devote mental energy to figuring out how to avoid a loss rather than developing new possibilities to explore.

Use joint evaluation. The problem with evaluating options in isolation is that you can't ensure the best outcomes. Take this scenario from a well-known study: A company is looking for a software engineer to write programs in a new computer language. There are two applicants, recent graduates of the same esteemed university. One has written 70 programs in the new language and has a 3.0 (out of 5.0) grade point average. The other has written 10 programs and has a 4.9 GPA. Who gets the higher offer?

The answer will probably depend on whether you look at both candidates side by side or just one. In the study, most people who considered the two programmers at the same time—in joint evaluation mode—wanted to pay more money to the more prolific recruit, despite his lower GPA. However, when other groups of people were asked about only one programmer each, proposed salaries were higher for the one with the better GPA. It is hard to know whether 70 programs is a lot or a little when you have no point of comparison. In separate evaluation mode, people pay attention to what they can easily evaluate—in this case, academic success—and ignore what they can't. They make a decision without considering all the relevant facts.

A proven way to snap into joint evaluation mode is to consider what you'll be missing if you make a certain choice. That forces you to search for other possibilities. In a study at Yale, 75% of respondents said yes when asked, "Would you buy a copy of an entertaining movie for $14.99?" But only 55% said yes when explicitly told they could either buy the movie or keep the money for other purchases. That simple shift to joint evaluation highlights what economists call the opportunity cost—what you give up when you pursue something else.

Try the "vanishing options" test. Once people have a solid option, they usually want to move on, so they fail to explore alternatives that may be superior. To address this problem, the decision experts Chip Heath and Dan Heath recommend a mental trick: Assume you can't choose any of the options you're weighing and ask, "What else could I do?" This question will trigger an exploration of alternatives. You could use it to open up your thinking about expanding your furniture business to Brazil: "What if we *couldn't* invest in South America? What else could we do with our resources?" That might prompt you to consider investing in another region instead, making improvements in your current location, or giving the online store a major upgrade. If more than one idea looked promising, you might split the difference: for instance, test the waters in Brazil by leasing stores instead of building them, and use the surplus for improvements at home.

Fighting Motivated Bias

All these cognitive biases—narrow thinking about the future, about objectives, and about options—are said to be "motivated" when driven by an intense psychological need, such as a strong emotional attachment or investment. Motivated biases are especially difficult to overcome. You know this if you've ever poured countless hours and resources into developing an idea, only to discover months later that someone has beaten you to it. You should move on, but your desire to avoid a loss is so great that it distorts your perception of benefits and risks. And so you feel an overwhelming urge to forge ahead—to prove that your idea is somehow bigger or better.

Our misguided faith in our own judgment makes matters worse. We're overconfident for two reasons: We give the information we do have too much weight (see the sidebar "How to Prevent Misweighting"). And because we don't know what we can't see, we have trouble imagining other ways of framing the problem or working toward a solution.

But we can preempt some motivated biases, such as the tendency to doggedly pursue a course of action we desperately want to take, by using a "trip wire" to redirect ourselves to a more logical path. That's what many expedition guides do when leading clients up Mount Everest: They announce a deadline in advance. If the group fails to reach the summit by then, it must head back to camp—and depending on weather conditions, it may have to give up on the expedition entirely. From a rational perspective, the months of training and preparation amount to sunk costs and should be disregarded. When removed from the situation, nearly everyone would agree that ignoring the turnaround time would put lives at stake and be too risky. However, loss aversion is a powerful psychological force. Without a trip wire, many climbers do push ahead, unwilling to give up their dream of conquering the mountain. Their tendency to act on emotion is even stronger because System 2 thinking is incapacitated by low oxygen levels at high altitudes. As they climb higher, they become less decision-ready—and in greater need of a trip wire.

In business, trip wires can make people less vulnerable to "present bias"—the tendency to focus on immediate preferences and ignore long-term aims and consequences. For instance, if you publicly say *when* you'll seek the coaching that your boss wants you to get (and that you've been putting off even though you know it's good for you), you'll be more apt to follow through. Make your trip wire precise (name a date) so that you'll find it harder to disregard later, and share it with people who will hold you accountable.

Another important use of trip wires is in competitive bidding situations, where the time and effort already invested in a negotiation may feel like a loss if no deal is reached. Executives often try to avoid that loss by escalating their commitment, overpaying by millions or even billions of dollars. The thing is, preferences often change over the course of a negotiation (for example, new information that comes to light may justify paying a higher price). So in this sort of situation, consider setting a *decision point*—a kind of trip wire that's less binding because it triggers thinking instead of a certain action. If the deal price escalates beyond your trigger value, take a break and reassess your objectives and options. Decision points provide greater flexibility than "hard" trip wires, but because they allow for multiple courses of action, they also increase your risk of making short-term, emotion-based decisions.

ALTHOUGH NARROW THINKING can plague us at any time, we're especially susceptible to it when faced with one-off decisions, because we can't learn from experience. So tactics that broaden our perspective on possible futures, objectives, and options are particularly valuable in these situations. Some tools, such as checklists and algorithms, can improve decision readiness by reducing the burden on our memory or attention; others, such as trip wires, ensure our focus on a critical event when it happens.

As a rule of thumb, it's good to anticipate three possible futures, establish three key objectives, and generate three viable options for each decision scenario. We can always do more, of course, but this general approach will keep us from feeling overwhelmed by endless possibilities—which can be every bit as debilitating as seeing too few.

Even the smartest people exhibit biases in their judgments and choices. It's foolhardy to think we can overcome them through sheer will. But we *can* anticipate and outsmart them by nudging ourselves in the right direction when it's time to make a call.

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OUTSMART YOUR ASSUMPTIONS

Quick Takes

1. Critical Thinking Is About Asking Better Questions

→ by JOHN COLEMAN

ARE YOU TACKLING a new and difficult problem at work? Recently promoted and trying to both understand your new role and bring a fresh perspective? Or new to the workforce and seeking ways to meaningfully contribute alongside your more experienced colleagues? If so, critical thinking—the ability to analyze and effectively break down an issue in order to make a decision or find a solution—will be core to your success. And at the heart of critical thinking is the ability to formulate deep, different, and effective questions.

Consider this: Clayton M. Christensen was perhaps the greatest management thinker of the last 30 years. His "How Will You Measure Your Life?" is a *Harvard Business Review* bestseller and one of the five best articles on personal development I've read, and his theories on innovation and disruption changed business. But my most memorable encounter with Christensen was a talk at Harvard Business School where he discussed his own approach to his time as an MBA student decades before.

He said Harvard Business School was where he learned to ask great questions. Impressed with his classmates, he would carry a notebook to class and write down the most insightful questions other students asked. He'd then go home and reflect on how and why the students had formulated them. Ever curious, Christensen laid the foundation for his future insights by first studying the process by which people formulated their best queries.

You can approach curiosity just as rigorously—and use that process to get a better view of a new situation or solve some of your toughest problems. Here are a few ways to enhance your ability to interrogate even the most difficult topics:

Hold your hypotheses loosely. As a former analyst at McKinsey & Company, one of the first things I learned was "hypothesis-driven thinking." Based on the scientific method, this process allows McKinsey teams to work through problems quickly and efficiently. It involves formulating an early answer to a problem and then digging into the data to seek to improve and refine it. Core to this approach, however, is holding your hypothesis loosely. If you are too attached to your initial answer, you may refuse to let it go, no matter where the

JUAN MOYANO/GETTY IMAGES

> **Critical questions may force us to fundamentally reconsider our initial conclusions.**

data leads. But if you treat your own answer as a straw man, holding your assumptions loosely, you'll be willing to totally abandon it if the situation calls for it.

In critical-thinking exercises we often fall rapidly into an intuitive and jointly held "answer" or hypothesis—particularly in groups—and we ask questions that seek to prove rather than disprove our thoughts. Critical questions, however, may force us to fundamentally reconsider our initial conclusions, and we must be willing to do so freely without defensiveness.

Listen more than you talk. This sounds simple, but the key to great questions is active listening. Active listening is the process of understanding what another person is saying—both explicitly and implicitly—while showing them that you are engaged and interested. Successful active listening allows you to fully grasp an argument, making it easier to question its logic.

Active listening also helps override your brain's "prediction engine" to ask better questions. Our brains are wired to generate efficient, intuitive answers, but that can limit your point of view. Deep listening is a way of overruling that function and opening ourselves to a wider array of answers. It also allows you to demonstrate to your counterpart that you care about what they are saying and take their perspective seriously, which keeps them engaged in the conversation and more open to your perspective.

Leave your queries open-ended. When you begin your inquiry, avoid asking yes-or-no questions. Instead, pose queries that force the respondent to open up and pontificate at length. Rather than asking, "Is this business stable?," ask, "If this business were unstable, how or why would that be?" Rather than asking someone, "Are you happy in your job?," ask, "What do you love about your job and what could be better?" or "Talk to me about a time you found joy in your work and a time you felt unmotivated." Then follow the dialogue that emerges with more questions. Open-ended questions encourage critical thinking in a group, allow an individual to expand on their viewpoints, and leave people the space to actively problem-solve.

Consider the counterintuitive. When problem-solving, we often quickly fall into groupthink: The group converges on a path too rapidly, and rather than periodically assuring they are headed in the right direction, they continue further and further—even if it's the wrong way. Be the person who poses the counterintuitive question, who challenges the group's conventional thinking and reconsiders first principles. There's a chance that your question may be off base and that the group *is* on the right track. And, yes, your colleagues who are interested in moving quickly may be annoyed. But every group has an obligation to consider the counterintuitive and needs someone unafraid to pose it, in case you need to change course.

Stew in a problem. In today's rapid-fire world we try to make decisions too quickly. But the best questions are often formulated after consideration and a good night's rest. Sleep can actually help your brain assimilate a problem and see it more clearly. And a deliberate process often leads to better conclusions. Research also shows that when we rush decisions, we often regret them, even if they end up being correct.

What I most love about Christensen's approach to learning from his classmates' questions is that rather than diagnosing them in the moment, he took them home and carefully turned them over in his mind. I had a boss who called this "stewing" in a problem. Just as a good stew takes time to simmer, a thoughtful conclusion or question may need space. Resist unnecessary urgency. Map a process that will allow you to solve a problem over several days or longer. Dig into it initially, then reflect on what you learned and what you should have asked. The questions you formulate in quiet reflection may be more powerful than those posed in the moment.

Ask the hard follow-up questions. It can be easy to put our brains on cruise control, accept easy answers, or yield to social pressures that push us to avoid interrogating others. But the kinds of deep questions that enable critical thinking are often delivered in chains of deeper and deeper follow-up inquiry. Every parent is familiar with the way children (nature's most curious people) will ask "why" dozens of times when given an answer. And we parents often find ourselves stuck or reconsidering our own answers at the end of this train of questioning.

While we don't need to ask a litany of "whys" to get to the heart of critical thinking, we should ask thoughtful, even hard, follow-up questions. It requires energy to listen hard and formulate those follow-ups, and that's often the only way to deepen your critical understanding of a topic.

Critical thinking is at the heart of solving complex problems in new and exciting ways. Building this key skill will help you as you navigate new roles, establish yourself in your organization, or simply face a conundrum. Learn to formulate and ask questions rather than simply answer them.

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2. Relearning the Art of Asking Questions

→ by TOM POHLMANN and NEETHI MARY THOMAS

PROPER QUESTIONING has become a lost art. The curious four-year-old asks a lot of questions—incessant streams of "Why?" and "Why not?" might sound familiar—but as we grow older, our questioning decreases. In a recent poll of more than 200 of our clients, we found that those with children estimated that 70% to 80% of their kids' dialogues with others included questions. But those same clients said that only 15% to 25% of their own interactions consisted of questions. Why the drop-off?

Think back to your childhood. Chances are, you received the most recognition or rewards when you got the correct answers. Later in life, that incentive continues. At work, we often reward people who answer questions, not those who ask them. Questioning conventional wisdom can even lead to being sidelined, isolated, or considered a threat.

Because expectations for decision-making have gone from "get it done soon" to "get it done now" to "it should have been done yesterday," we tend to jump to conclusions instead of asking more questions. The unfortunate side effect of not asking enough questions is poor decision-making. That's why it's imperative that we slow down and take the time to ask more—and better—questions. At best, we'll arrive at better conclusions; at worst, we'll avoid a lot of rework later on.

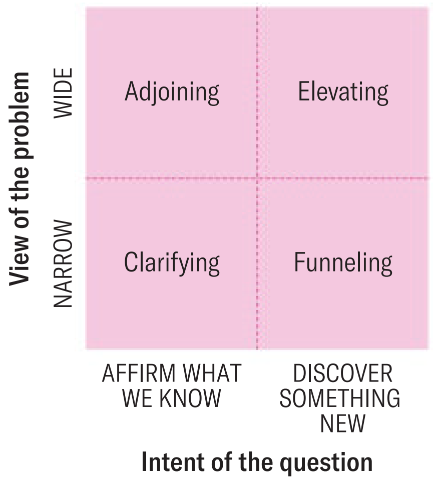
Aside from not speaking up enough, many professionals don't think about how different types of questions can lead to different outcomes. You should steer a conversation by asking the right kinds of questions for the problem you're trying to solve. In some cases, you'll want to expand your view of the problem, rather than keeping it narrowly focused. In others, you'll want to challenge basic assumptions or affirm your understanding in order to feel more confident in your conclusions.

Consider four types of questions—clarifying, adjoining, funneling, and

> People jump to conclusions instead of asking questions.

Four Types of Questions Achieve Four Different Goals

Choose the right one to steer the conversation where you want it to go.



Source: Mu Sigma

elevating—each aimed at achieving a different goal.

Clarifying questions help us better understand what has been said. In many conversations, people speak past one another. Asking clarifying questions can help uncover the real intent. This helps us understand one another better and leads us to ask relevant follow-up questions. Both “Can you tell me more?” and “Why do you say so?” fall into this category. People often don’t ask these questions; they typically make assumptions and complete any missing parts themselves.

Adjoining questions are used to explore related aspects of the problem that are ignored in the conversation. Questions such as, “How would this concept apply in a different context?” or “What are the related uses of this technology?” fall into this category. For example, asking “How would these insights apply in Canada?” during a discussion on customer lifetime value in the U.S. can open a useful discussion on behavioral differences between customers in the U.S. and Canada. Our laserlike focus on immediate tasks often inhibits our asking more of these exploratory questions, even though they could help us broaden our understanding of an issue.

Funneling questions are used to dive deeper. We ask these to understand how an answer was derived, to challenge assumptions, and to understand the root causes of problems. Examples include “How did you do the analysis?” and “Why didn’t you include this step?” Funneling can naturally follow the design of an organization and its offerings, such as, “Can we take this analysis of outdoor products and apply it to a certain brand of lawn furniture?” Most analytical teams—especially those embedded in business operations—do an excellent job of using these questions.

Elevating questions raise broader issues and highlight the bigger picture. They help you zoom out. Being too immersed in an immediate problem makes it harder to see the overall context behind it. So you can ask, “Taking a step back, what are the larger issues?” or “Are we even addressing the right question?” For example, a discussion on issues such as margin decline and decreasing customer satisfaction could turn into a more in-depth discussion of corporate strategy with an elevating question: “Instead of talking about these issues separately, what are the larger trends we should be concerned about? How do they all tie together?” These questions take us to a higher playing field, where we can better see connections between individual problems.

In today’s always-on world, there’s a rush to answer. Ubiquitous access to data and volatile business demands accelerate this sense of urgency. But we must slow down and understand one another better to avoid poor decisions and succeed in this environment. Because asking questions requires a certain amount of vulnerability, corporate cultures must shift to promote this behavior. Leaders should encourage people to ask more questions, relevant to the desired goals, instead of rushing them to deliver answers. To make the right decisions, start asking the questions that really matter.

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We have to consider not only our own human biases, but also those of our audience, our team, and our competitors.

CAROL YEPES/GETTY IMAGES

3. How to Minimize Your Biases When Making Decisions

→ by ROBERT F. WOLF

“THERE IS ALWAYS an easy solution to every human problem—neat, plausible, and wrong.” Little did he know it when he penned these words, but journalist H.L. Mencken was tapping into the very core of behavioral decision-making and the need to understand and compensate for it.

Every day, senior managers are tasked with making very significant strategic decisions for their companies, which usually require support by teams of internal and external experts and a heavy dose of research. Theoretically, knowledge-based decision-making underpins every successful organization. But, as Plato pointed out, “Human behavior flows from three main sources: desire, emotion, and knowledge.” Firsthand experience and bestsellers like Daniel Kahneman’s *Thinking, Fast and Slow* have confirmed an even broader range of behavioral vulnerabilities and vagaries in our abilities to make decisions as human beings.

For those of us tasked with modeling the risk/reward potential of various business opportunities, the need to address these influential, and often subconscious, factors in the modeling process is compelling. In the enterprise risk management (ERM) arena, in particular, it is mandatory that incisive analysis of decision options means taking rigorous steps to challenge not only the scenarios we develop but also their underlying assumptions.

From what we have learned from behavioral economists, we—as actuaries in the enterprise risk management space—outlined some of the most prevalent biases that creep into all kinds of risk/reward decision-making, personal as well as professional. By acknowledging and shedding light on these sources of distortion, we can strengthen the relevance and reliability of our decision-making strategies and assessment of potential risk manifesting from these decisions. We have to consider not only our own human biases but also those of our audience, our team, and our competitors.

Minimizing the impact of these biases is crucial. They can sneak into any risk/

Common Biases and Their Distortions

Anchoring

- We tend to be influenced by numbers, even invalid ones, and we don't adjust away from them as we should.
- Numbers affect our decisions, even when we should ignore them.
- Our questions prime our attention for certain information, ignoring or omitting contradictory data.

Framing

- How a situation is presented to you affects your decision.

Generally our pain of losing is more powerful than our pleasure of winning; hence we really are risk averse to gains and risk seeking to avoid further loss.

Availability heuristic

- Vivid, easily imagined, but uncommon events are highly weighted in our brains.
- Recent events get weighted disproportionately higher than past events.

Confirmation bias

- Our initial decisions become self-fulfilling prophecies.

We seek out evidence that confirms our initial decisions, ignoring information against them.

Commitment escalation

- Making decisions and committing resources doesn't necessarily guarantee a reward, and may produce a loss.
- It's difficult to accept sunk costs.

Hindsight bias

- Once we know something, we can't remember when we did not know it.
- This challenges our ability to learn from past failures.

reward management scenario we develop, unless we exercise considerable rigor at every stage of the process from assumption right through to the presentation of alternative scenarios and their attendant considerations. To address the kinds of biases outlined briefly here, we must challenge our decision-making process by realizing that we both influence and are influenced by the format of the information. The above heuristics served us well as human beings when we were employed in work such as tilling the land. They do, however, open us up for biased risk/reward decision-making when applied to today's knowledge-based work. To minimize their impact, we must:

- Search relentlessly for potentially relevant or new disconfirming evidence
- Accept the "chief contrarian" as part of the team
- Seek diverse outside opinions to counter our overconfidence
- Reward the process and refrain from penalizing errors when the intentions and efforts are sound
- Reframe or flip the problem on its head to see if we are viewing the situation in either a positive or negative framework
- Redefine the problem from here on out and ignore the old problem to avoid escalation of unnecessary commitment
- Develop systemic review processes that leave you a committed "out" possibility when trying to "cut the losses"
- Avoid the potential for escalation or further emotional investment in faulty decisions engendered by premature "public" commitment

Throughout the process, it's crucial to recognize that most risk does not manifest itself from some exogenous contingent event but rather is driven by the behaviors and decisions of people. It is only by exercising the intellectual rigor to challenge our current views of the future and long-lived underlying assumptions that we gain the means to manage the real risks that face our enterprises. I have addressed the "individual" element here. I am a strong supporter that it doesn't end here. I encourage all to read the HBR.org article "What's Your Risk Attitude? (And How Does It Affect Your Company?)," by David Ingram and Mike Thompson, who address that it is not only our behaviors as "individuals" that are relevant but also, and perhaps rather, how we make risk/reward decision-making in groups.

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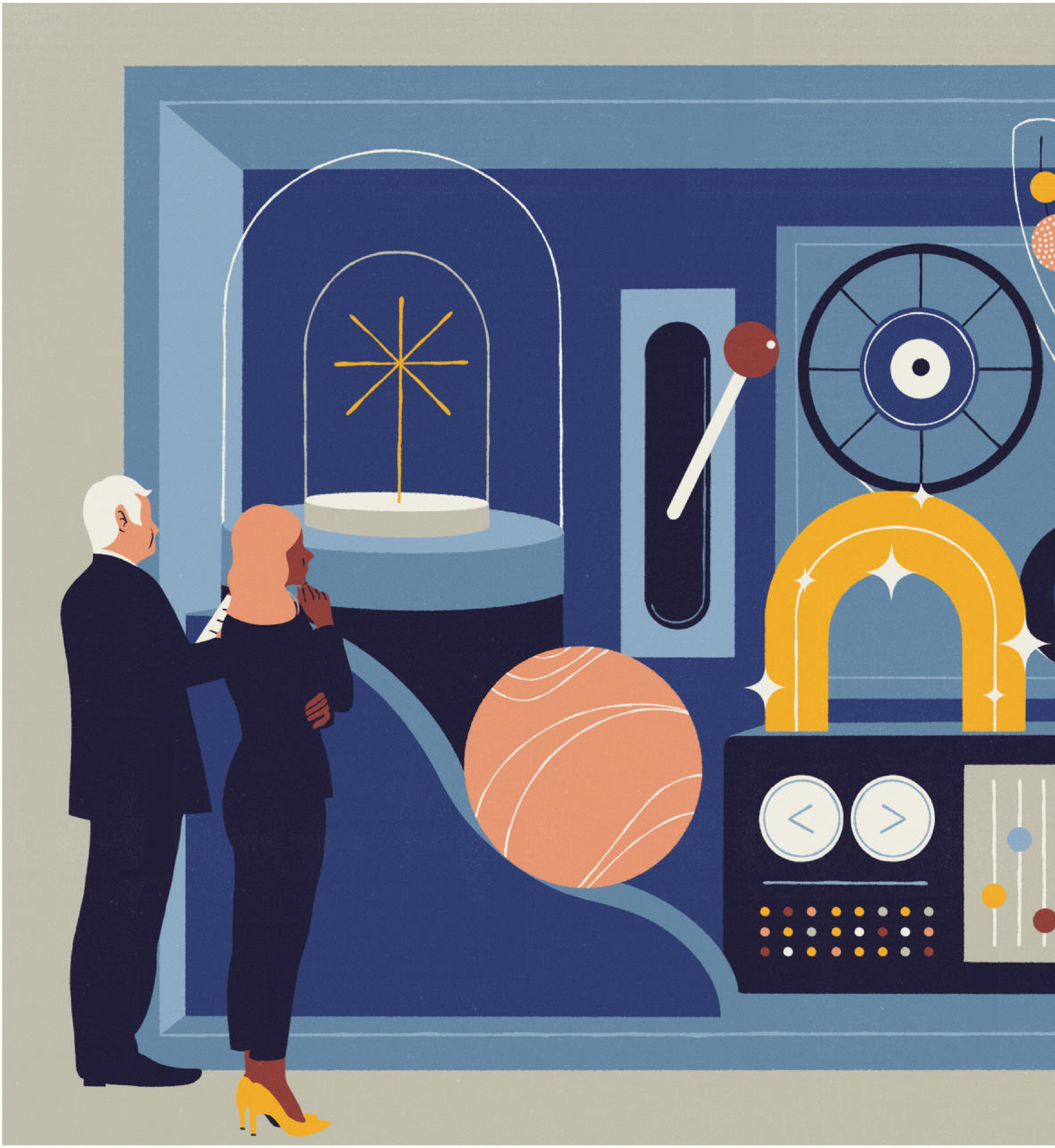

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Stress-Test Your Strategy: The 7 Questions to Ask

→ by ROBERT SIMONS

AN ECONOMIC DOWNTURN can quickly expose the shortcomings of your business strategy. But can you identify its weak points in good times as well? And can you focus on those weak points that really matter?

A stress test—an assessment of how a system functions under severe or unexpected pressure—can help you home in on the most important issues to address, whatever the economic climate. By asking tough questions about your business, you can identify confusion, inefficiency, and weaknesses in your strategy and its implementation.

As Peter Drucker once warned, "The most serious mistakes are not being made as a result of wrong answers. The truly dangerous thing is asking the wrong questions." For the past 25 years I have researched the drivers of successful strategy execution in a variety of companies and industries. Through this work I have identified seven questions that all executives should ask—and be able to answer. Master this list, and you will keep the fundamentals of your strategy execution on track.

The questions may seem obvious, but the choices they represent can be tough, and their full implications are not always immediately clear. The first two questions compel you to set strict priorities. The next two assess your ability to focus on those priorities by designating critical performance variables and constraints. Questions five and six investigate whether you are using techniques that will enhance creative tension and commitment. The final question deals

Illustration by CARMEN DEÑÓ

The Seven Questions

1. Who is your primary customer?
2. How do your core values prioritize shareholders, employees, and customers?
3. What critical performance variables are you tracking?
4. What strategic boundaries have you set?
5. How are you generating creative tension?
6. How committed are your employees to helping each other?
7. What strategic uncertainties keep you awake at night?

with your ability to adapt your strategy over time.

Let's take a look at each question, so that you can see how you—and your strategy—measure up.

1 Who Is Your Primary Customer?

Choosing a primary customer is a make-or-break decision. Why? Because it should determine how you allocate resources. The idea is simple: Allocate all possible resources to meet and exceed your primary customer's needs.

Consider McDonald's, whose 32,000 restaurants feed more than 58 million customers each day. The company's growth over its 50-year history has been described as the greatest retail expansion in the history of the world.

What was the fast-food chain's key to success? A clear choice of a primary customer and an understanding of when that choice needed to change. In the 1980s and 1990s, McDonald's considered its primary customers to be not the people who ate in its restaurants but multisite real estate developers and franchise owners. By focusing most of its resources on those customers through centralized real estate development, franchising, and procurement functions, it opened as many as 1,700 new stores a year.

But by 2003 same-store sales were declining. Worldwide markets were saturated, and people were tiring of the chain's standardized fare. This crisis prompted the new CEO at the time, Jim Cantalupo, to make a tough decision: "The new boss at McDonald's is the consumer," he announced.

The company's subsequent changes in resource allocation reveal the profound implications of this decision. Consumers' tastes differ widely by region and throughout the many countries in which McDonald's operates. To satisfy these varying tastes, McDonald's reallocated resources from centralized corporate functions to regional managers, who were encouraged to customize local menus and store amenities. In the United Kingdom, McDonald's now serves porridge for breakfast; in Portugal, it offers soup; in France, it sells burgers topped with French cheese. The Paris design center provides franchisees with nine different design options, allowing them to customize the decor for their clientele.

As of last January, McDonald's had delivered 81 consecutive months of increasing same-store sales around the world. Its customer satisfaction scores rose each year from 2005 to 2009 (they faltered slightly in early 2010, as more upscale customers began to choose McDonald's over pricier alternatives). It's no accident that McDonald's was one of only two companies in the Dow Jones Industrial Average to end 2008 with a gain in stock price.

Unlike McDonald's, many companies resist choosing just one customer. Executives often attempt to avoid the adjective "primary" by announcing, "We have multiple customers." This is a sure recipe for underperformance. Allocating resources to more than one customer results in confusion and less-than-optimal service.

Trying to accommodate multiple kinds of customers led to trouble at Home Depot. After taking over as CEO in 2000, Bob Nardelli concluded that the consumer home improvement business was saturated, and shifted significant resources away from consumers in order to cater to professional contractors. Consumers would no longer be the primary customers—but it wasn't clear that professional contractors were filling that role, either. Home Depot laid off customer service employees—the ones walking the aisles in orange aprons at its 1,900 stores—and spent the savings on an $8 billion acquisition spree, snapping up 30 wholesale housing-supply companies.

The acquisitions nearly doubled company revenue, but even so there weren't enough resources to meet the needs of two such different types of customers (there never are), and neither group was well served. During Nardelli's

Allocating resources to more than one customer results in confusion and less-than-optimal service.

tenure Home Depot's consumer satisfaction scores suffered the biggest drop of any U.S. retailer ever. At the same time, the wholesale supply operation was not getting the support required to obtain the efficiencies needed for a low-margin business.

It took a new CEO, Frank Blake, to refocus the business. In 2007 he announced that home owners would again be the primary customers. Home Depot sold its wholesale businesses, increased the number of orange aprons on the floor, and rehired master trade specialists to offer consumers how-to advice. Consumer satisfaction scores and same-store sales and profits have begun to rebound.

Of course, your choice of primary customer may change over time—recall what happened at McDonald's. But you need to recognize that such a change will probably require restructuring your business.

The flip side of maximizing resources for your primary customer is that you should minimize the resources devoted to everything else—including all external stakeholders and all internal units that do not create value for your primary customer. They should receive enough to meet the needs of their constituents, but no more.

2 How Do Your Core Values Prioritize Shareholders, Employees, and Customers?

Companies that execute strategy well define their core values to reflect the relative importance of shareholders, employees, and customers. Value statements that list aspirational behaviors aren't enough. *Core* values must indicate whose interests come first when difficult trade-offs must be made.

At some companies, customers come first. At others, it may be shareholders. At yet others, it may be employees. There is no right or wrong choice. Each choice is based on a different theory of value creation. But making one and communicating it effectively are essential.

A case in point is Merck's costly decision to withdraw Vioxx, its blockbuster Cox-2 pain suppressant, from the market. On September 24, 2004, then-CEO Ray Gilmartin got a call from the head of Merck's research labs, informing him that the preliminary results of an ongoing clinical study indicated that Vioxx caused unexpectedly high numbers of heart attacks and strokes after 18 months of continuous use. Gilmartin had three options: Merck could carry the study through to its planned conclusion to gather more data. It could ask the FDA to approve a "black box" label warning doctors and patients about the newly discovered risks. Or it could take the drug off the market, forgoing $2.5 billion in annual revenue.

On September 30—six days after the phone call— Gilmartin convened a press conference to announce the worldwide withdrawal of Vioxx. He explained his decision by citing the company's core value: "Merck puts patients first."

In contrast, Pfizer executives put shareholders first when faced with a similar situation. After discovering that Celebrex—the Cox-2 inhibitor Pfizer acquired when it bought Pharmacia—sometimes caused cardiovascular problems, they decided to keep manufacturing the drug. But they did so responsibly, adding a black box warning that allowed patients and doctors to make fully informed decisions. Shareholders thus avoided losing billions of dollars in profits.

A third option is to put employees first—a choice that can actually keep

Idea in Brief

THE APPROACH
How do you identify the weakest parts of your strategy? Asking tough questions about your business—seven key questions in particular—will help you understand where confusion and inefficiency lie.

THE QUESTIONS
Have you identified a primary customer? Who is first among your stakeholders—shareholders, employees, or customers? Have you narrowed down which performance variables you track? Set critical boundaries? Do you generate creative tension? Promote coordination among your employees? And finally, what questions keep you up at night, thinking about how the future will change your business?

Who is a "Customer"?

Don't use the word "customer" to refer to anyone inside the organization. Internal people are never a company's primary customers, and treating them as such may cause you to lose sight of your true focus.

customers and shareholders content as well. As the former Southwest CEO Herb Kelleher has argued, "If employees are treated well, they'll treat the customers well. If the customers are treated well, they'll come back, and the shareholders will be happy." To drive this point home, Kelleher regularly appeared in national newspaper ads under the caption "Employees first. Customers second. Shareholders third." Other companies have made and communicated a similar choice.

Each of these rankings worked because the company made a clear decision and implemented it consistently. This is not always the case. Confusion about core values was at the root of the recent Fannie Mae debacle. Company executives, acting at politicians' behest, dedicated $1 trillion to democratizing home ownership by offering mortgages to disadvantaged customers. However, they were also trying to maximize shareholder value. To boost short-term profits, they built up and sold increasingly risky loan portfolios—until the housing market collapsed, leaving taxpayers with a $100 billion bailout bill.

3 What Critical Performance Variables Are You Tracking?

Many managers complain that they're overwhelmed by how many things they're asked to keep track of in all-inclusive lists of performance measures. It's not uncommon for companies to create scorecards with 30, 40, or more variables, in the mistaken belief that adding measures results in a more complete—and therefore better—scorecard. Information technology enables us to gather more and more data at lower and lower cost. But we cannot keep tracking so many variables. Effective managers monitor only a small number—those that could cause their strategy to fail.

The problems generated by trying to track too much data became evident at Citibank in the late 1990s, after executives introduced a new scorecard in their consumer bank. In addition to traditional financial measures, the card included new metrics for such things as strategy implementation and customer satisfaction.

As one district manager was pondering the award level for her top branch manager, conflicting signals from the new scorecard stopped her short. Although the branch manager had delivered outstanding financials, his customer satisfaction scores were subpar. The system would not permit a full bonus unless every measure was rated at par or above. Making an exception for one person could destroy the integrity of the system. But the branch manager might leave for a competitor if the scorecard undervalued his contribution. In the end his manager fudged the scorecard to ensure that he received an acceptable bonus. Because of similar problems involving other employees, the bank soon dropped the new scorecard.

Apart from avoiding this sort of dilemma, there is a simple but often overlooked reason to measure just a few variables: Management attention is your scarcest resource. As you add metrics to your scorecards, you incur an opportunity cost, in that people have less time to focus on what really matters. Think of Amazon, where inconvenience for buyers tops the list of factors that could cause strategy to fail. Executives there focus relentlessly on making purchasing as easy as possible: They concentrate on revenue per click and revenue per page turn, not on long lists of measures that have little to do with the customer's purchasing experience. At Nordstrom customer loyalty is key, so executives keep their attention on sales per hour and revenue per square foot. At Marriott the crucial metrics are associate satisfaction, guest satisfaction, revenue, and RevPAR (revenue per available room).

There's another reason to limit your focus: If you add too many measures to your scorecards, you will drive out innovation. In the old McDonald's—the one that prioritized franchise growth and standardized food—field consultants visited each store to measure its compliance with prescribed operating standards. They analyzed 500 metrics, producing a 25-page report on each store. With all the constraints imposed by these measures, store managers had no opportunity to innovate or respond to consumer preferences. Standardized mediocrity was the result.

4 What Strategic Boundaries Have You Set?

Every strategy carries the risk that an individual's actions will push the business off course. The risk intensifies when managers feel pressure to hit growth and profit targets.

Ask the Whole Team

The seven questions are intended to be tools for stimulating engagement. Everyone in your business, from the CEO to the front line, must be actively involved in discussions about the key factors that will enable the successful execution of your strategy. Therefore, *how* you ask the questions is crucial. These commonsense principles will help you involve your whole team.

You must pose the questions face-to-face. "Look me in the eye" interaction is essential. You cannot get real engagement remotely or by email. You must be able to see the subtle body language that can tell you when to challenge, probe, and push and when to offer encouragement and support.

Discussions must cascade down the organization, not stay stuck at the top. The tone you set will echo throughout the business.

Your operating managers are key to the process. Staff groups can play a useful role in data input, facilitation, and follow-up, but operating managers are the ones who can commit to action and who are responsible for results.

The debate must be about *what* is right, not *who* is right. People should check titles and office politics at the door. You should encourage everyone to take risks, state unpopular opinions, and challenge the status quo.

You must root every discussion in the challenge "What are you going to do about it?" Think of the seven questions as a means to an end. Their purpose is to inspire decisions and, ultimately, action.

There are two ways to control such risk: You can tell people what to do, or you can tell them what *not* to do. Telling people what to do helps assure that they won't make mistakes by engaging in unauthorized activities. This is the prudent approach if safety and quality are paramount concerns—if, say, you're running a nuclear power plant or overseeing a space launch. In such cases you want employees to follow standard operating procedures to the letter.

However, if innovation and entrepreneurial thinking are important, you should follow a different course: You should hire creative people and tell them what not to do. In other words, you should give them freedom to exercise their creativity—within defined limits.

Steve Jobs followed this principle when he declared that Apple would not develop a PDA. He later argued that without such discipline, the company wouldn't have had the resources to develop the iPod. "People think focus means saying yes to the thing you've got to focus on," he later said. "But that's not what it means at all. It means saying no to the hundred other good ideas."

Setting clear boundaries also lets organizations avoid the waste and risk that inevitably accompany undisciplined growth. To take one dramatic example, Wells Fargo weathered the 2008–2009 financial crisis because it strictly forbade its employees to venture into structured investment products and low-documentation mortgage loans. Unlike most of its competitors, Wells Fargo also refused to court future business from Warren Buffett by lending money to Berkshire Hathaway at below-market rates. This decision actually won Buffett's respect. "I got a big kick out of that, because that was exactly how they should think," he told *Fortune*. "The real insight you get about a banker is...what they don't do. And what Wells didn't do is what defines their greatness."

But remember: Boundaries are powered by punishment, not rewards. You must be willing to discipline—and fire, if necessary—anyone caught stepping over the line. If you follow up forcefully and consistently, word will travel throughout your organization, reinforcing the importance of your prohibitions.

5 How Are You Generating Creative Tension?

As a business leader, one of your primary jobs is to make outside market pressures felt inside your business. This can motivate employees to think and act like winning competitors, rousing them from comfortable ruts. The bigger your business, the more insulated people are from market pressures, and the more imperative this becomes.

Here is a menu of techniques that can generate creative tension and spur innovation. In this instance, unlike when defining a primary customer or ranking your responsibilities, you needn't choose

■■ One way to force employees to think outside the box is to assign them to a second box.

just one; choose whichever and however many are right for your company. In fact, the more innovation you desire, the more techniques you should consider.

Assigning stretch goals. The most common way of motivating people to innovate is to set stretch goals—sometimes called challenge goals or big hairy audacious goals. Conducting business as usual or making incremental improvements is not enough. The only way to meet aggressive targets is to do something completely different.

Ranking according to performance. Many high-innovation organizations rank employees on the basis of demonstrated performance. The rankings affect who is promoted, who is placed on probation, and who is asked to leave. The challenge, of course, is to prevent the competition from becoming negative and destructive.

GE's Jack Welch is unapologetic when he argues the merits of this approach. The ranking system at GE was "very controversial," he has said. "Weed out the weakest.…It's been portrayed as a cruel system. It isn't. The cruel system is the one that doesn't tell anybody where they stand."

You can take this approach a step further by ranking the performance of teams and business units. This will unquestionably produce adrenaline to compete—and to innovate. Nike's CEO, Mark Parker, likes to fire up friendly rivalries by posting each footwear division's performance scores after every season. "People see each other's scores, and they huddle and really look at how they can make it better next season," he has explained.

Setting spans of accountability that are greater than spans of control. If you want people to innovate, try holding them accountable for measures that are broader than the resources they control. This is the well-worn path followed by every successful entrepreneur, and you can use it to foster entrepreneurial behavior within your business.

Tom Siebel, of Siebel Systems, understood this principle well when he based his managers' bonuses on customer satisfaction measures, even though no one manager controlled all the resources needed to make a customer happy. His action forced the managers to innovate their way to success. As one business unit head put it, "To do my day-to-day job, I depend on sales, sales consulting, competency groups, alliances, technical support, corporate marketing, field marketing, and integrated marketing communications. None of these functions report to me.…Coordination happens because we all have customer satisfaction as our first priority."

Allocating costs. The way in which you charge corporate overhead costs can also stimulate creative tension. Jamie Dimon, the CEO of JPMorgan Chase, insists on full allocation of overhead—everything from legal to marketing expenses—to the parts of the business that use them.

The purpose here is twofold. The most obvious goal is to generate accurate cost data. But often the more important one is to motivate managers to become actively involved in discussions about the value of corporate services provided. When operating managers have skin in the game, they will generate ideas about how units can work together to do things better, faster, or cheaper.

Creating cross-unit teams and matrix accountability. Another way of forcing employees to think outside the box is to assign them to a second box. New perspectives emerge when people are forced out of their routines. When they attend cross-unit team meetings, employees not only serve as emissaries for their home units but also return with ideas and innovations from their new colleagues.

You can push this approach to an extreme by adopting a matrix design, in which every manager has two bosses. One may be a regional head, the other a product market head. Everyone in the matrix is then accountable for conflicting priorities. Many global companies, including ABB, Novartis, and P&G, have at one time or another used this approach.

As with each of these techniques, you must be careful to balance the benefits and costs. On one hand, you will generate creative tension as people present and negotiate multiple points of view. On the other hand, you risk having the added bureaucracy slow down decision-making. When P&G adopted a matrix structure, global product leaders had to get approval from the relevant regional head whenever they wanted to introduce a new product. Too many people had veto power. So in 2005 P&G abandoned the matrix in favor of global business units.

6 How Committed Are Your Employees To Helping Each Other?

Although you want your employees to achieve their personal best, they must also work together toward shared goals. To create the high levels of commitment that requires, leaders must build an organization that has the following four attributes:

Pride in purpose. If people are proud of their organization's mission, they will assume shared responsibility for its success. The sort of pride embodied in the Marine Corps slogan "Semper fidelis" ("Always faithful") is echoed in Merck's "Putting patients first" and Amazon's "Earth's most customer-centric company." In each case the tagline inspires and motivates members of the organization.

Group identification. Belonging to an elite organization is itself a source of pride, one that carries with it a sense of responsibility toward others in the group. In the Marines ("The few. The proud"), the first loyalty of every member is to the unit—to helping those in it no matter what.

The same principle can apply to businesses. Employees of Southwest Airlines, for example, take pride in a rigorous selection process that admits fewer than 2% of the 100,000 annual applicants. To reinforce their identification with the company, employees from different departments are encouraged to interview job candidates and veto those they feel would not be a good fit. Applicants who are hired know they are part of an elite team whose members go above and beyond to help one another.

Trust. When you trust your colleagues, you're willing to make yourself vulnerable—to put your reputation on the line to support them. Trust is vital if you want people to work collaboratively. At Nucor, the industry-leading steel company, employees are encouraged to propose innovations to improve efficiency. Nucor shares the resulting savings with its employees, rather than increasing production targets. This policy has built trust among the workers, who are confident that they and the executives are working together toward the same goals.

Fairness. The final requirement for collaboration is fairness. Disparities in compensation among peers pose the most obvious challenge: Nothing is more certain to kill the desire to help a colleague. In themselves, inequities in pay are easy to fix; far more insidious are perks signaling that those at the top are more deserving than everyone else. To guard against this danger, Southwest's highest executives work out of small interior offices that have been described as only slightly nicer than janitors' closets.

Vertical pay inequity is also an issue; if you want people to commit to helping one another, you must share rewards fairly up and down the organization. Southwest has operated with a rule that executive pay increases cannot be larger, proportionately, than other employees' raises. And in bad times executives take pay reductions along with everyone else. An industry analyst once calculated that as a result of these practices, Southwest generated 10 times more revenue for every dollar of executive compensation than some of its big U.S. competitors.

If you want your employees to embrace your vision of shared success, you must be perceived as putting fairness and equity above self-interest. When Sam Palmisano took over as IBM's CEO, he asked the board to reallocate half of his bonus to the executives who would be leading his new, team-based strategy. And early last year, when he announced that 250,000 IBM employees would be getting raises, he added, "The executives won't—but that's fine. We make enough money!"

7 What Strategic Uncertainties Keep You Awake at Night?

At the root of every failed strategy is a set of assumptions about the future that eventually proved false. We assumed housing prices would never fall simultaneously across the country. We assumed asset diversification would eliminate risk. We assumed the migration to digital media would be slow and orderly. We assumed customers wouldn't accept fewer features in exchange for a lower price.

Only three things in life are certain: death, taxes, and the fact that today's strategy won't work tomorrow. At some point your products will become obsolete, your customers' tastes will change, or technology will render your business model uncompetitive. Today's successes will be tomorrow's old news. The question is not if, but when.

To adapt successfully, you must constantly monitor the uncertainties that could invalidate the assumptions underpinning your current strategy. Your entire organization must continually scan the competitive environment for changes and send intelligence up the line. And because everyone watches what the boss watches, if you want your employees to focus on specific issues, focus on those issues yourself.

The most powerful way to signal what's important to you is to use your business control systems as interactive tools. Pay close—and visible—attention to the data they produce, and use them to generate questions that will activate the search for information throughout your business.

By using its P&L system interactively, Goldman Sachs avoided the mortgage-backed securities debacle that brought most of its competitors to their knees. A Goldman executive has described the process this way: "We look at the P&L of our businesses every day. We have lots of models that are important, but none are more important than the P&L, and we check every day to make sure our P&L is consistent with where our risk models say it should be. In December [of 2006] our mortgage business lost money for 10 days in a row. It wasn't a lot of money, but by the 10th day we thought that we should sit down and talk about it." The talk quickly turned into action: Goldman issued an order to reduce exposure to mortgage-backed securities and hedge remaining positions against future losses. This early move allowed the firm to prosper as competitors were forced to liquidate.

Depending on your business, the system you choose to use interactively could be a profit plan, a new-business booking system, or a project management system. Any performance measurement system will do as long as it contains easy-to-understand information, requires face-to-face interaction among operating managers, focuses dialogues on strategic uncertainties, and generates new action plans.

Once you've chosen a system, you must not only ask your employees to challenge deeply held assumptions, including your own, but also reward those who have the courage to tell you bad news. When Alan Mulally arrived at Ford as the CEO, he discovered that executives were afraid of admitting failure. Their presentations at Thursday morning meetings highlighted only successes (color-coded green), never problems (color-coded yellow and red). Mulally asked how everything could be so rosy when the company was losing billions. Mark Fields, the head of the Americas division, finally gave a presentation noting technical problems with the new Ford Edge. Everyone waited to see how the new boss would react. "The whole place was deathly silent," Mulally recalled in an interview with *Fortune*. "Then I clapped, and I said, 'Mark, I really appreciate that clear visibility.' And the next week the entire set of charts were all rainbows."

A Checklist for Executing Strategy

Executing strategy successfully requires making tough, often uncomfortable choices based on simple logic and clear principles. But we frequently avoid making choices, in the mistaken belief that we can have it all. Instead of focusing on one primary customer, we have many kinds of customers. Instead of instilling core values, we develop lists of desired behaviors. Instead of focusing on a few critical measures, we build overloaded scorecards.

There is no magic bullet that can zero in on the pitfalls of your business strategy. There is only one route to success: You must engage in ongoing, face-to-face debate with the people around you about emerging data, unspoken assumptions, difficult choices, and, ultimately, action plans. You and they should be able to give clear, consistent answers to the seven questions posed above. Only then can you be confident that your strategy is on track.

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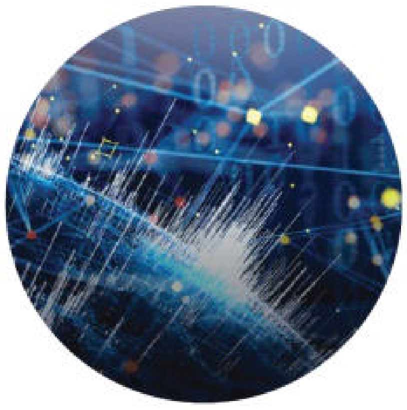
The Winning Strategy Is Simplicity



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Productivity, sustainability, innovation, collaboration, security—the promise of digital transformation to deliver game-changing results is driving today's growth strategies.

But as businesses adopt such technologies as multi-cloud, edge computing, and internet of things (IoT), the complexity of information technology (IT) may be standing in the way of success. An overwhelming 82% of respondents to a recent survey of large enterprises said IT complexity impedes their success—and 46% said reducing that complexity drives innovation.

As leading organizations in such sectors as finance, energy, and technology adopt advanced tools, some identify IT simplicity as key to strengthening operations, increasing productivity, accelerating innovation, improving customer experience, and fortifying cybersecurity.

POWERING FINANCIAL INCLUSION

iOCO, a South African banking-as-a-service (BaaS) provider, helps large banks advance financial inclusion to offer greater banking, loan, equity, and insurance equity to the underserved populations of this economically diverse nation. To do so, iOCO needed a mainframe powerful enough to open, manage, and scale to meet its partners' needs.

Using an amplified and simplified mainframe has let iOCO offer more robust BaaS infrastructure that helps its partner banks reach new markets faster—and at 25% of the cost a bank might spend on capital expenses for the infrastructure iOCO provides.

STRENGTHENING SECURITY

SGN distributes gas to 5.9 million residential and commercial customers in the U.K. The utility sets its top priorities as customer satisfaction and safety. But the IT complexity of connected applications, cloud services, and IoT sensors and other tools and infrastructure creates countless points of vulnerability, which contributes to wariness in the energy sector of moving operations to the cloud.

When SGN migrated its entire network to a multi-cloud environment, its top goals included increasing agility, cutting costs, fostering innovation—and above all else, strengthening cybersecurity.

Adopting an integrated security ecosystem let SGN establish a central data network and access the world's largest civilian threat intelligence database so it can spot more threats more clearly and respond in real time. The simplicity of SGN's multi-cloud network improves collaboration among its remote workforce and boosts customer trust.

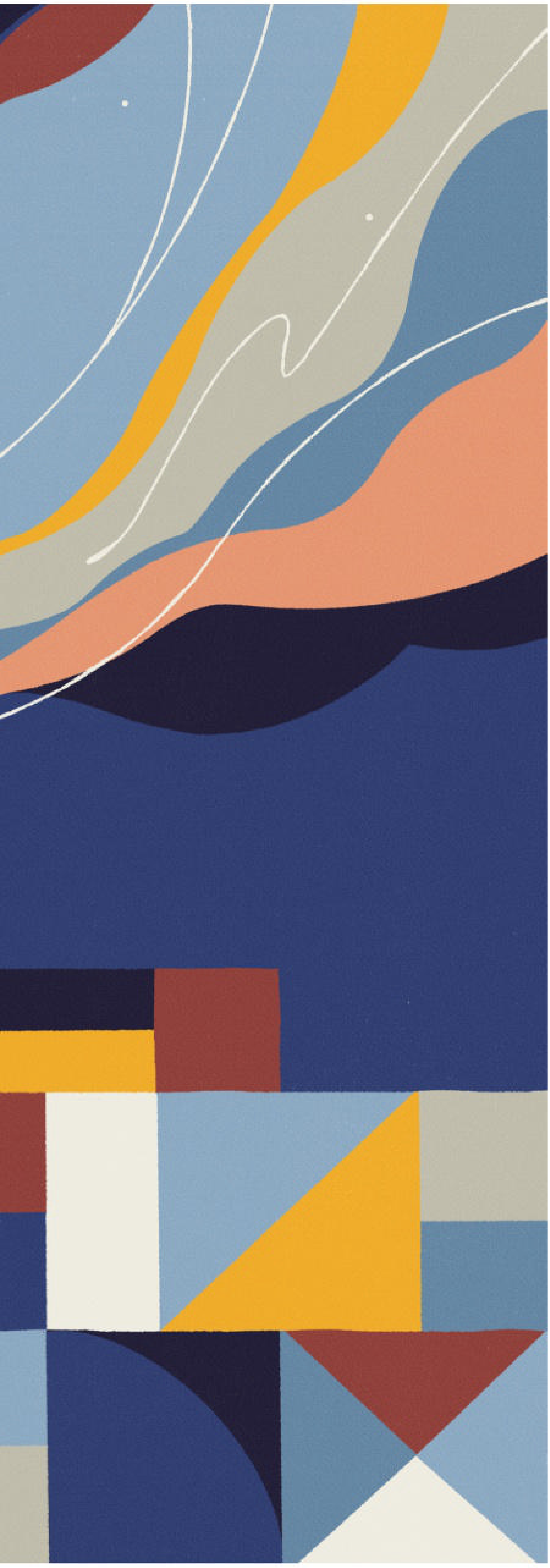
MAKING COMPLEXITY MAKE SENSE

Japan-based managed service provider Fujitsu oversees large, complex environments for enterprise customers in Central Europe that incorporate a range of network infrastructures and technologies. To optimize its performance for customer data centers in Germany, Fujitsu needed to simplify complex environments and provide tools for efficiency.

One concern was monitoring and alerting systems that generated too much false-alarm "noise." Fujitsu implemented a single-pane operational dashboard to help its customers and internal staff monitor inventory, performance, and real-time network health. By enhancing its network operations (NetOps), Fujitsu can help customers more quickly detect abnormal patterns indicating potential trouble and improve the speed of resolution.

Whether using mainframes to strengthen ideation, boosting signal over noise with NetOps, or implementing an integrated cybersecurity ecosystem, these improvements all depend on simplifying IT complexity.

Broadcom's technology and expertise can help your organization cut IT complexity and simplify to help meet and exceed your goals.



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How to Make the Most of Your Company's Strategy

The art of translating top management's aspirations into concrete action on the ground

→ by STEPHEN BUNGAY

IN THE DECADES since Peter Drucker first urged executives to manage by objectives, companies have replaced his famous "letter to the boss" with ever more elaborate and time-consuming processes for setting goals. The result is usually a profusion of measures and targets, finally approved six months into the year they are supposed to cover, that only add to the confusion about what really matters to the business. For most managers, the big unanswered question remains: What do you want *me* to do?

This article is about how to answer that question. In the following pages you will read about a process I call strategy briefing, a technique derived from the military. Through it, managers and their reports can move together from the uncertainty surrounding seemingly complex goals and performance measures to clarity about just which objectives each person needs to focus on, in what order of priority. The briefing also helps managers set parameters for two variables that are the bedrock of high performance: the extent to which people in an organization act in line with its leaders' intentions, and how much freedom they have to take independent action. In essence, the briefing turns lofty strategic goals into a clear blueprint for execution.

In what follows I'll walk you through the five-step briefing process, illustrating it with a fictional example stitched

Illustration by CARMEN DEÑÓ

together from my own experiences as a consultant and a teacher. To conclude I'll explain how to roll the process up, down, and across your organization.

The Road to Confusion Is Paved With Good Intentions

Joe was a star. An engineer, he also had an MBA and worked at a large, well-established information services company. A year after moving into product development, he was asked to set up a low-cost R&D center in Asia. By introducing new, less expensive offerings, the company hoped to fend off increasing competition from cheaper rivals.

Six months into the project, Joe convened an off-site. After presenting the company's goals and challenges, he asked the people attending for thoughts on how they could help meet them. After a few moments' silence, one of the senior technicians raised his hand. "I don't want to sound negative," he said, "but what exactly are we really trying to achieve?"

Joe was taken aback. "It's perfectly clear, isn't it? We're creating a new center to develop low-cost products. We've got two years. You know the situation, and you know the company's strategy. I just went through it."

"Sure," came the reply, "but frankly, I'm still confused. There's lots of stuff in our goals about shareholder value, reinventing ourselves, thinking globally, and embracing change. There's stuff about being innovative and delivering superior customer satisfaction, and there are targets for increasing revenue, lowering costs, and raising margins. Well, I don't get it. From where I sit the sky's falling in. We're in a deep recession, the competition is eating our lunch, revenues are falling, margins are shot to bits, customers are starting to hate us, and all anyone seems to care about is getting rid of people to save money. Some of us are probably next. Where are we in all this? What are we supposed to do?"

Joe sensed that he needed to take control. "OK," he said, "I hear you. And you're right. Let's sit down and work it out now so we're all singing from the same sheet. Let's not just talk; let's write it down, so we all know exactly what we are about."

STEP 1

State Your Intent

Joe went over to a flip chart and wrote down "Task + Purpose." Under "Task" he wrote "what," and under "Purpose" he wrote "why." As he turned back to his audience, he saw to his surprise that people had perked up. "So we'll answer those questions, right?" he said. "Here and now."

The discussion began as usual with an aspiration. It was not long before the words "world class" were uttered, as someone suggested that the team's purpose was to "build a world-class development facility." Some of the team members liked that. Others rolled their eyes. "Look," somebody piped up, "that's an aspiration anyone could have. It makes no difference; it's vague and has nothing to do with our situation." The first version was crossed out. The purpose became "To build a new development facility."

"But that's just a description of what we're doing," came the objection. "Isn't the question, What are we trying to achieve?"

"We need to reduce costs," came the answer. So perhaps that was the "why."

Joe called a halt to the increasingly fractious discussion. "Let's step back a second," he suggested. "What is the situation?" He tried to sum it up, for both himself and the others:

"The company's revenues are declining by 10% a year, in part because we're in the worst market in history but also because we're losing share. Our cost base is 30% too high, our products are old, and customer satisfaction is falling. We claim to be innovative, but new-product development is blocked. Our job, surely, is to unblock it. If we do that, it will reduce operating costs and improve customer satisfaction, and that will help sales."

Joe felt somewhat liberated by what he had just said. Like everyone else, he had a mental list of what needed to be done. The company always had to improve costs, revenues, margins, and service. But he had just articulated the relationship between them for the first time. New-product development was the link that completed the chain. He realized that for him success meant getting products out now.

The discussion continued. Half an hour later, the group had its first answer on the flip chart:

What: To significantly reduce time to market for development, enhancements, and support of high-quality products to our customers in a cost-effective manner.

Why: In order to help aggressively grow our revenues and increase our margins.

If we give ourselves a target we can't achieve," Joe said, "we're setting ourselves up for failure."

During lunch Joe went outside to think. He did not like what the team had written. It was too broad and too unrealistic. How was the firm going to aggressively grow in the current market? He ruefully realized that he should have thought about this long ago. He needed to set the scene for his people.

The Takeaway. Joe began by trying to define what his group's intent was, essentially drafting a statement outlining what the people above him expected his group to do and why. If you were a soldier, you'd recognize this intent as your mission. Getting to the right statement is not easy; it took Joe and his team several tries. But a clearly defined intent unifies a team's effort. Before the off-site, Joe's people had been generating a lot of activity. Once they had agreed upon the statement, they could see which activities supported the intent and stop the rest. That produced a degree of calm in his overworked department.

STEP 2

Try Again–This Time in Context

Joe went back to the flip chart and turned down a new sheet. At the top of it he wrote, "Context." Then he listed four observations:

1. *The company's market share is being eroded by competitors under some of the most difficult trading conditions in our history.*

2. *The loss of share must be halted, or we will have no basis for future growth.*

3. *Customer service is the key to halting this decline, but with the existing product line, it's impossible to deliver outstanding service at acceptable margins.*

4. *With the current loss of accounts, every day that passes makes recovery more difficult.*

The group came back in as he finished. "Does that help?" he asked. There were nods as people read what he had written. "Actually, we've got a crucial role in all of this, haven't we?" observed one of the head programmers.

"And," somebody added, "if it's true, it means that what matters is time. We've got to speed things up."

"Is that right?" someone else asked. "Is that what the company wants us to do?"

"Let's look again at what the company strategy document says," Joe replied. He fiddled around on his laptop until the words of the corporation filled the screen:

We are committed to delivering Great Service to our customers. This will require us to build a strong service-based culture. This will be achieved by a combination of improved customer and market segmentation capability, improved customer service processes and tools, and, significantly, specific customer-focused behaviors' being constantly demonstrated both internally and with external customers. The goal is to reshape the business to deliver superior shareholder value over a sustained period.

The group stared blankly at the screen. "Marketing wrote that," someone commented.

"More like HR," said another person. "Though finance finally got their oar in at the end."

"Think about what's behind it," Joe said. "It says there is going to be a change.

Idea in Brief

THE PROBLEM

Managers struggle to translate corporate strategy into what they should actually be doing, particularly in complex situations with multiple goals and measures.

THE SOLUTION

Strategy briefing is a five-step approach to planning that originated with the military. It provides a way for managers and their reports to gain clarity around just which objectives each person needs to focus on and when.

THE STEPS

The steps are (1) state your intent, or what you are expected to do and why, (2) revise it in the context of your company's situation, (3) determine which measures best indicate whether you're achieving your goal, (4) define the tasks implied by your intent, and (5) define the boundaries, or constraints, that limit your team. When this approach is cascaded through, a strategy is broken down into a cascade of discrete but linked elements that align the organization.

Joe realized that he had defined his own role. His job as leader was to manage the team's boundaries.

The clock's ticking. We have to give customers better service than our competitors do if we are to get them back, and we've got to make money as well."

"So how do we fit in?" someone asked.

"If the company is to compete on service, it needs us to come up with the products to enable it to do so," Joe replied. "It used to be all about technology and features, but it's a service game now. I was talking to the head of technology about it. He wants a coherent suite of products, not the mess we've got now, with different offerings for every region and every client. I've talked to the head of Asia as well. The costs are killing us. We have to make some hard choices. Sales won't like it, but there it is. It is our call. Why don't we try to write it down, simply, and work out what it is that senior management wants us to do? What was their intention when they wrote all this?"

Forty minutes and several flip-chart sheets later, Joe's group had a formulation, which it decided to call "Higher Intent." The formulation read:

TWO LEVELS UP (CORPORATE)

What: To transform the company within the next three years.

Why: In order to deliver superior service and financial performance.

ONE LEVEL UP (TECHNOLOGY GROUP)

What: To develop and support a coherent product line that is easy to service.

Why: In order to allow sales and marketing to grow revenues.

"Our job," said Joe, "is to fulfill the technology group's intent in Asia. Their intent tells us a few things that should drive every decision. The new products have to be simpler to service, or they're no good. They have to fit in with what's being done globally, and the local salespeople will have to live with that—no more customization. We've got to design products with sales and marketing to make sure they'll sell. They have to be low cost or we can't make money. And we've got to move fast. Now let's look at our earlier intent statement again. What do *we* have to do *now?*"

The immediate needs were defensive. There was no way anyone could grow revenues and margins in the current climate. The firm had to stop the erosion of market share. It was also clear that the company had to get something new out the door that year. Moreover, Joe's group needed to focus its efforts; more than 250 products, in all stages, were in the pipeline, and the group would have to decide which ones would make the most difference.

Finally, the team came up with this statement of intent:

What: To accelerate delivery of critical products to market.

Why: In order to enable sales channels to halt market share erosion by year-end.

"Is this ambitious enough?" someone asked. "It doesn't sound particularly inspiring."

"This is enough," said Joe. "If we give ourselves a target we can't achieve, we're setting ourselves up for failure. But that reminds me, we need some measures so that we know what we're doing is working. We haven't finished yet."

The Takeaway. Before a group can arrive at the right statement of intent, its leader needs to set a context. Context setting requires understanding the goals and constraints of both the people above you and the people above them. Going two levels up helps you to see how your own actions fit into the bigger picture and to determine your priorities. Keep in mind that revisions are critical to the briefing process. Progress is made only through an iterative process of formulation, critique, and readjustment.

STEP 3

Set Your Measures

Joe and his team determined that to achieve the objectives they had just outlined, they needed to focus on three things—time, market share, and costs. They expressed each in terms of a goal:

1. *Deliver agreed product set by year-end and on budget.*
2. *See that total market share in Asia at the end of the year equals the share at the beginning of the year.*
3. *Reduce operating costs for development in the region by 20%.*

There was a pause. They were all studying the flip chart. Someone frowned. "We ourselves cannot stop market share from declining," he said. "Do we want to be measured on that?"

"Strictly speaking, no," replied Joe, "but it is the purpose behind everything we are doing. If the rate at which we're losing share goes down, we'll know what we're doing is working, even if we don't hit the target. If we don't look at it, we might be barking up the wrong tree."

"What about what we *are* measured on?" someone piped up. "We've all got targets. Dozens of them." So they had, including Joe himself. Part of his bonus was tied to the number of new products delivered. Optimizing that would not be difficult—he could just go for the easy development projects nearest completion. But they might not have the most impact.

"Look," he said, "I'll make a commitment to you. I will renegotiate the targets for this group. I'll explain what we are doing and that the measures are just there to tell us whether we're successful or not. The outcome is what we're trying to optimize. The measures are the dashboard. We should not confuse the readings on it with what we really want to do, which is to arrive on time at our destination. When we've worked out who is doing what, I'll measure your performance on how well you accomplish your assigned tasks. What I want to know from you now is what you think those tasks should be."

The Takeaway. You need measures to monitor whether or not you're achieving your intent. Sometimes, if your briefing is going well, you'll find that the activities you see as most appropriate to your intent aren't the ones you are actually assessed on. If that's the case, it becomes the responsibility of the team leader to go back to the people above him or her and negotiate new performance measures, as Joe decides to do here.

STEP 4

Define the Tasks Implied By Your Intent

The people in Joe's group started by looking at what they were actually doing. They were involved in three types of activity: growing an offshore facility, improving costs and efficiency, and working on various initiatives related to morale and customer service. They decided to do only what was essential and to sideline initiatives not related to their intent.

Then they realized they'd left something out. Someone needed to figure out which products were critical to the company's goals—an issue no one was addressing. That was the first task. The team members knew that some work on costs would have to continue but that it was even more important to speed up development and deliver something good to the sales force. To ensure that people didn't get distracted from that task, they decided to dedicate half the staff solely to development and have the rest work only on enhancements and support. In sum, four main tasks were implied by the intent:

1. *Identify the critical products.*
2. *Accelerate development of those products.*
3. *Create enhancements to existing products faster and provide more-responsive product support.*
4. *Reduce costs.*

If Joe and his group accomplished all those goals, they would achieve their intent—and be heroes. But suppose they had to make trade-offs? Joe looked at the list. "In all of this," he asked, "what's really vital? If we had to cut, where would we cut last?"

The team members had a debate. Though they needed to define the critical products, they could get that broadly right. They had to reduce costs, but if they failed, they could accept low margins for a time. The thing that mattered most was the fast development of new products—if they didn't get that right this year, all else would be in vain. Joe went back to the chart and drew a red circle around "Accelerate development." Next to it, he wrote, "Main effort."

It was time for a break. Joe went for a stroll outside and reflected. The group had started with a list of things to do that were only loosely related and varied in importance. Putting that to one side, the participants had thought through what needed to be done most so that the tasks were prioritized. They had filled in a key missing piece in their to-do list—identifying the critical products. And they also had a list of tasks that didn't overlap, so people could tackle them without getting in one another's way. Now Joe wanted to assign the tasks to his people and have them come up with a plan for accomplishing them. He didn't want to dictate how to do things; his reports all knew their jobs better than he did and needed to put some creative thought into their plans. He wanted to give them space. But how could he set the right parameters for them?

Joe went back in, and as the team reassembled, he wrote a new heading on each of two flip charts: "Freedoms" and "Constraints." The brainstorming began. A quarter of an hour later, the list under "Freedoms" included "senior management support," "motivated employees," and "the importance of new products." A longer list under "Constraints" included "concerns about our ability to deliver," "customer reluctance to adopt new products," "competitor activity," and "organizational complexity."

The Takeaway. Your next job is to prioritize the tasks that you've decided

It sounds paradoxical, but in my experience, if they're not given boundaries, people create more rigid ones for themselves.

will help you meet your intent. Joe identified his highest priority, or "main effort," as accelerating development, because it would have the largest impact on the company's overall intent of halting the decline in market share. That meant that if he lost people midyear because of head-count reductions, he would transfer engineers working on product enhancement and support into development so that market introductions would not be delayed.

STEP 5

Define the Boundaries

Joe stepped back. Everyone looked a bit blank. The lists weren't very helpful. They looked like a list of good things and a list of bad things. The bad ones were more complaints than constraints, plus a few worries. The lists didn't show what people were or were not free to do.

"Let's try again," he said. "Let's really try to think about what we can or can't do. Let's begin with the constraints."

It soon became clear that there were two big ones: They were trying to optimize time, but cost and quality imposed boundaries. Within a few minutes there was an earnest debate among the participants, which started to get passionate and technical at the same time. Joe stopped it. "We've just identified another aspect of the tasks," he said. "We're going to have to work this out as we go. Let's not assume we know the answer already." He wrote down the two constraints:

1. **Product quality.** *To be defined with reference to customer needs and the service organization.*
2. **Product cost.** *Requirements set by budget and competitive benchmarks.*

Though Joe's group had no control over those constraints, it had to find out what they were. He and his team realized that by defining their boundaries, they were also identifying whom they had to talk to both inside and outside the organization. The discussion became more concrete and more focused. They identified two more constraints and a question:

3. *The requirement to reduce the number of development centers—to be agreed on with the head of Asia.*
4. *Product obsolescence program—to be agreed on with global product management.*
5. *Who has final decision on new-product development projects?*

As he looked at these, Joe realized that he had defined his own role. His job as leader was to manage the team's boundaries. Tackling the first four constraints would involve working with the decision-makers and ensuring that the team's proposals were good enough to be accepted. The fifth item on the list was something he had to clarify. He made a note to himself to raise the issues with both his regional boss and his functional boss when he saw them next.

The shadows were lengthening and people were tired; time to call it a day. "Well," said Joe, after he'd assigned the four tasks to different managers, "I want each of you leading a task to come back to me by the end of next week to tell me how you are going to tackle it. Now, let's have a drink before we head to the airport."

The Takeaway. To execute a strategy, employees need to be able to adapt as the situation changes. Boundaries give them the freedom to do that. That sounds paradoxical, but in my experience, if they're not given boundaries, people create more rigid ones for themselves. In the process, they tend to list things that are getting in their way or might go wrong. Those are not boundaries but difficulties we want them to overcome. A boundary puts limits on possible alternative objectives. In Joe's case, time, cost, and quality were all potential objectives. But he could optimize only one, time. Thus, the others became constraints, or boundaries. He could do whatever he wanted to optimize time subject to achieving minimum standards for cost and quality.

The Rollout

A single strategy briefing like the one I've just described can help an individual team perform better, but the real magic happens when briefings are held throughout an organization. When, at the end of the story, Joe assigns the tasks and asks his reports to develop their own plans, it means that they must now conduct their own briefings with their subordinates.

In each of his subordinates' statements of intent the "why" will be Joe's "what"—to accelerate delivery to market of critical products—and the "what" will be the task Joe assigned that person. So for the first of his direct reports, the intent will be "to identify the critical set of products in order to accelerate their delivery to market"; for the second, "to speed up development in order to accelerate the delivery of critical products to market"; and so on. Each of those four people's direct reports will then work out their implied tasks and pass those along to their subordinates with their "whats." The process will continue until no further analysis is necessary. In this way a company's strategy is broken down into a cascade of discrete but linked elements that give a clear view downward toward actions and upward toward the company's strategy, and align functions across the organization.

The rollout must also incorporate a feedback process in which the leader of a group that has just conducted a briefing presents the output to the people he or she reports to. In Joe's case, this "back-briefing" should involve a discussion of the metrics that he and his group came up with, which differed from the official targets.

In back-briefings three things happen. First, the unit doing the back-briefing checks its understanding of the direction it has received or worked out. Second, superiors gain clarity about the implications of the direction they originally gave and may revise it as a result—as Joe's bosses would probably do for the metrics. Third, it provides an opportunity to ensure alignment across the organization as well as up and down; if Joe's reports give their back-briefings to him together, he can check for gaps, overlaps, and coherence.

EFFECTIVE BRIEFING HELPS unlock hidden sources of productivity. It offers a practical way to ensure that the people in your company are both strategically aligned and operationally autonomous, a combination that has been the hallmark of high-performance organizations for 2,000 years—since the days of the Roman army. Now part of military practice throughout NATO, the strategy briefing technique has a 150-year track record, going back to the 19th-century Prussian army, of enabling forces to cope with the fast-changing uncertainties of warfare. Given that the business environment has become equally unpredictable, it's time for companies to adopt it as well. It may be the best investment in time you will ever make.

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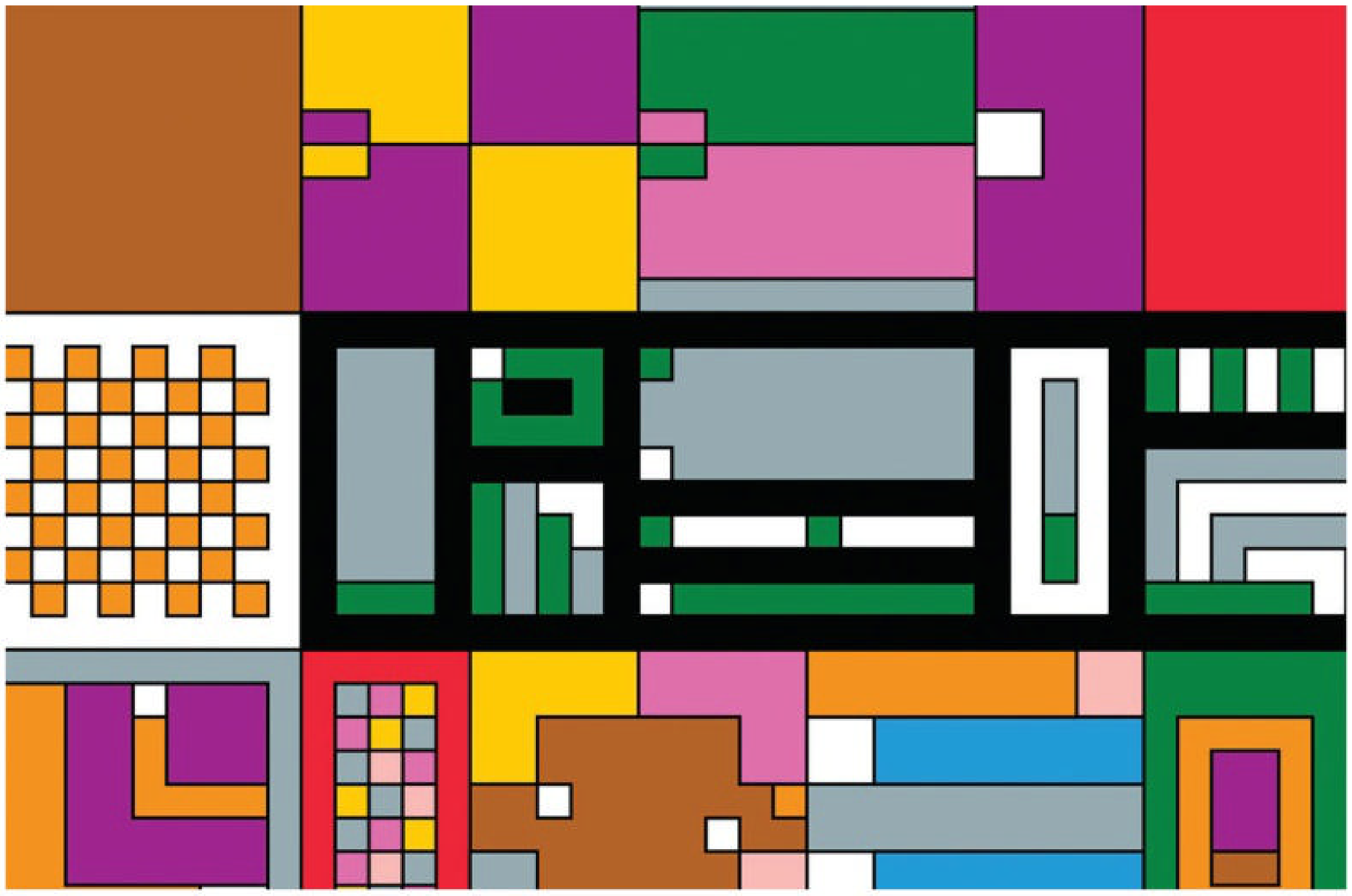
Quick Takes



1. Strategic Planning Should Be a Strategic Exercise

→ by GRAHAM KENNY

OVER THE YEARS I've facilitated many strategic-planning workshops for business, government, and not-for-profit organizations. We reflect on recent changes and future trends and consider how to engage with them for corporate success.

Before we start the workshops, though, many of the participants wonder if the exercise isn't just a waste of time. "Planning," they say, "will simply take over, and we'll just end up with more of the same."

But strategic planning does not have to be reduced to devising an action plan. And it shouldn't. The key to making strategic planning a strategic exercise is to keep clearly in mind what is and isn't strategic. To unpick that advice, we'll look at the purpose of strategy and set out some basic rules for realizing that purpose.

What Is Strategic Planning For?

Strategy is about positioning an organization—whether it's a business, a government, or a not-for-profit entity—relative to its competitors. And before you protest, let me make this clear: All organizations have competitors—for customers, for staff, for funds, for resources.

We see this at play in how Mercedes-Benz positions itself for customers against its competitors such as Ford, BMW, and General Motors. It does this on the strategic factors relevant to customer choice, such as product range, product design, price, customer service, brand, and so on.

But organizations also position themselves to attract other key stakeholders, such as employees or suppliers. Google, for example, is renowned for being highly selective about the staff it hires. The strategic factors for attracting the best employees are pay, promotional prospects, working conditions, organizational culture, and the like.

You might think that government departments or NGOs don't have competitors. They do: Government departments compete for funds with every other department and agency, and NGOs scramble for grants. They also compete for employees with other government bodies and NGOs, and for supplies with just about every other organization.

MATHIEU LABRECQUE

The key to making strategic planning a strategic exercise is to keep clearly in mind what is and isn't strategic.

And they compete for critical supplies and resources with other organizations that have the same needs—from transportation to software—albeit often for different services.

Delving deep into stakeholder relationships is important, but it's only one part of strategic planning, which is also about mapping connections between stakeholders. For instance, doing well with employees not only propels competitiveness in attracting the best staff; it also entices customers through improved employee performance.

And this brings us to my definition of strategic planning: designing a *system* whereby the various key stakeholders of an organization interact to produce a *virtuous circle* that is, in turn, *a source of sustainable competitive advantage.* Get this right and you'll fast-track your organization to success.

Planning to Create Advantage

Here are a few pointers to help make your next strategic-planning session really "strategic."

1. Distinguish between operational and strategic plans. The argument that strategic plans are inevitably not "strategic" is a straw man. Critics conflate strategic and operational plans and then show how strategic plans aren't strategic. It's true: Operational plans aren't strategic. The primary focus of a strategic plan is competitiveness. It is designed to respond to change and future opportunities in a way to find advantage. The primary focus of an operational plan is efficiency. They are designed to roll out strategy via internal department programs developed by, for instance, HR, IT, marketing, and manufacturing.

Take Toyota, for example. A strategic position is decided by Toyota at the corporate level to add electric vehicles to its product range. This is then executed via a production plan rolled out in Toyota's factories. The first plan is strategic; the second is operational.

2. Don't think of your strategic plan as fixed. Few plans ever turn out exactly as drafted. It may seem obvious to state this postpandemic, when every organization on earth has had to contort itself to survive. But strategic planning's critics seem to think that strategic planners always assume that the world is standing still—and consequently are doomed to fail in an ever-changing world.

Don't forget that "strategy" originates from the Greek *strategos,* which means a general in command of an army. Military chiefs don't envisage that their plan of attack will remain static after contact with the enemy. Nor should you.

3. Aim for insight. This is the most difficult shift of all. I've often come away from strategic-planning sessions with a feeling that we didn't "nail it." Not that the clients weren't happy. They were. I was the one who felt we'd left something "on the table," so to speak. I've come to recognize that my disappointment, if I can call it that, was something I'd now label a lack of insight. What do I mean by that?

It's that aha moment when the "penny drops" or when you see something with fresh eyes. Should you experience this realization in your strategic planning, appreciate that you'll be ahead of your competition if you act on it.

Your insight can take many forms. It might be finally appreciating which market segment is most profitable to pursue, or understanding at last what new product will satisfy customers' needs best and turn out to be a winner, or appreciating what the new generation of employees wants from the modern corporation to become highly motivated.

So, at your next strategy retreat, I suggest that you push and push and push until that spark appears. Then you've "got it." You've found that difference that matters to your key stakeholders, be they customers, employees, or suppliers. Insight will set you apart from the crowd—and set you up for real success. It may take time, but it's worth the effort.

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GIOVANNI NUZZOLESE/EYEEM/GETTY IMAGES

2. A Better Way to Set Strategic Priorities

→ by DEREK LIDOW

SMART LEADERS understand that their job requires them to identify trade-offs, choosing what *not* to do as much as what to do. Grading the importance of various initiatives in an environment of finite resources is a primary test of leadership.

To meet this challenge, leaders often rank order their priorities. It is natural and easy to make a list. When I work with leaders on the crucial task of priority setting, however, I caution against rank ordering. It can be tremendously demotivating to managers to be assigned a rank, and it all but guarantees dissension and turf wars among team members.

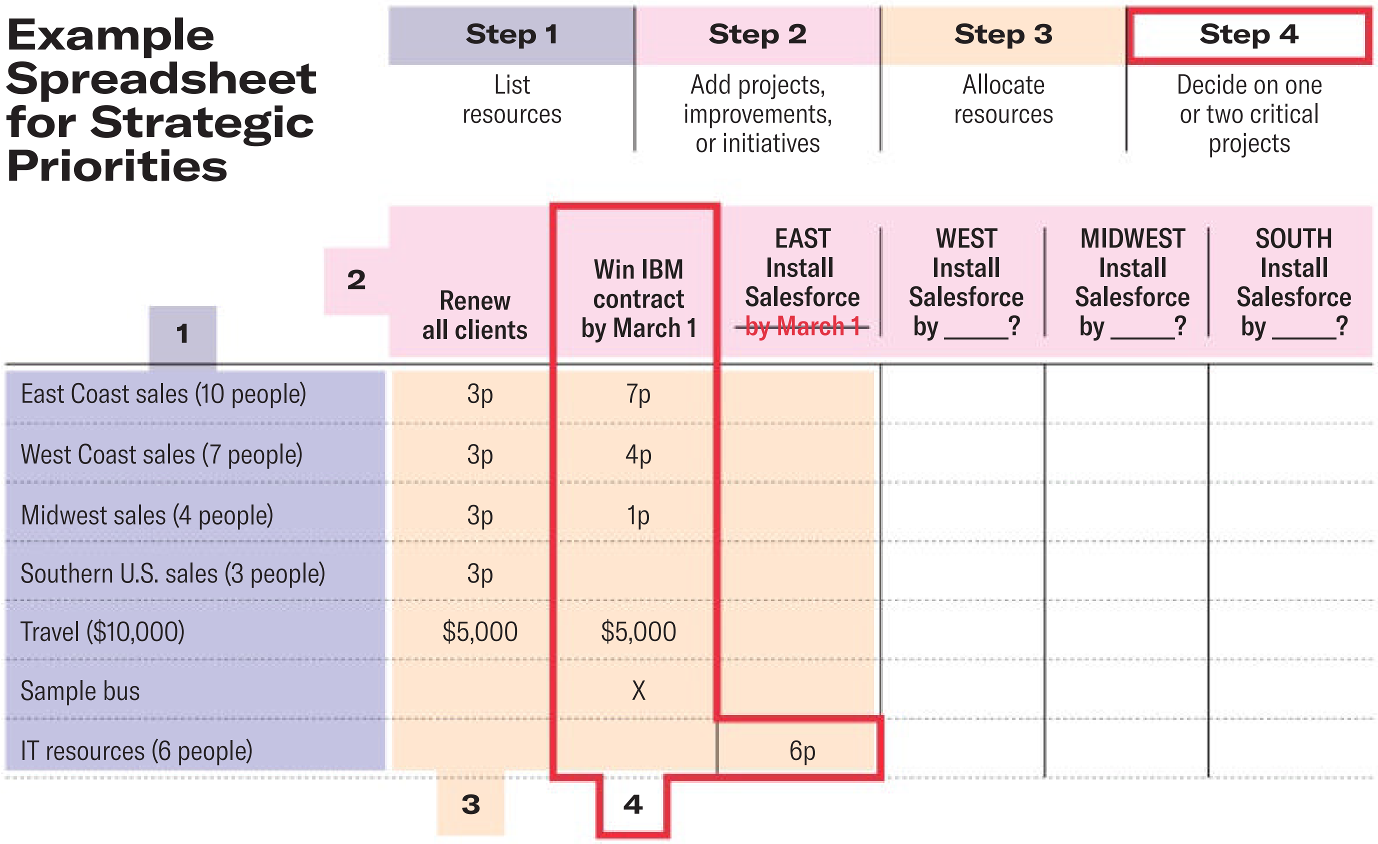
A better way to establish priorities is to put rank ordering aside and return to first principles. To wit, three interdependent variables are essential for executing any initiative: objectives, resources, and timing. You can't produce the desired effect of a project without precise objectives, ample resources, and a reasonable time frame. If you push or pull on one leg of this triangle, you must adjust the others.

All three variables are important, but resources reign supreme. Resources are what enable an objective to be accomplished within a set time; without dedicated means, an initiative is pure fantasy. Once a leader decides what resources will be allocated to achieve which objectives over what periods of time, they have no more need for ranking. They will be forced to acknowledge three kinds of priorities: critical, important, and desirable.

A *critical* priority is an objective that must be successfully accomplished within a specified amount of time, no matter what. For example, it might be critical that a company wins a new order (which will be awarded on a given date) from a major customer or gets a factory fully operational by a certain day. If the objective of winning the order is set and the timing is nonnegotiable, then the only element you can manipulate is resources (money, people, equipment). If the leader is sincere about the priority, then they must make available to the project manager all the resources requested. Though leaders may not realize it, declaring a project "critical" implies that it must be accompanied by a de facto blank check, enabling the manager to draw on all other available resources within the organization. And all critical priorities are, by definition, equal within the category.

An *important* priority, on the other hand, is an effort that can have a significant positive impact on performance. For these initiatives, resources are fixed and the variable is either time or the objective. For example, an organization may have an aspirational objective but fix only the resources that it feels it can afford to invest over a specified time. A leader might say, "Let's assign Miguel and Aisha to this project full time for the next quarter." The organization, if it is operating rationally, should be willing to accept however much improvement it can get from that fixed investment. Alternatively, an organization may declare that it will invest a specified amount of resources for as long as it takes to achieve an objective: "We're going to assign Miguel and Aisha to install the new software, however long that will take." An important priority implies that the organization be understanding when the objective is variable and patient when time may vary.

Example Spreadsheet for Strategic Priorities



Step 1 List resources

Step 2 Add projects, improvements, or initiatives

Step 3 Allocate resources

Step 4 Decide on one or two critical projects

	Renew all clients	Win IBM contract by March 1	EAST Install Salesforce ~~by March 1~~	WEST Install Salesforce by ____?	MIDWEST Install Salesforce by ____?	SOUTH Install Salesforce by ____?
East Coast sales (10 people)	3p	7p				
West Coast sales (7 people)	3p	4p				
Midwest sales (4 people)	3p	1p				
Southern U.S. sales (3 people)	3p					
Travel ($10,000)	$5,000	$5,000				
Sample bus		X				
IT resources (6 people)			6p			

A *desirable* priority is an effort in which resources and time are both variables. The organization desires an outcome but cannot absolutely commit specific resources over any specifiable time period. "Whenever Miguel and Aisha are not required on our critical product launch, they will work on installing the software upgrade." Progress will be made only when and if resources become available.

Because resources are fixed for all critical and important priorities, the potential "blank check" resources that may be required to hit a critical project must all come from desirable projects. You cannot in good conscience set a critical priority unless you also designate desirable projects from which resources will be immediately transferred to the designated critical project when required.

Once you have identified critical, important, and desirable projects, you can begin to identify appropriate objectives, resources, and time for each project. I encourage leaders to follow a four-step process:

Step 1. List in one column the resources (people, money, highly constrained elements like a sample bus for demonstrating products) available for all proposed projects. For example, you might have 10 salespeople on the East Coast, seven on the West Coast, four in the Midwest, and three in the South; a travel budget of $10,000; and one sample bus.

Step 2. List across the top row the projects, improvements, or initiatives you want to accomplish with those resources with any existing time constraints. For example, you might write, "Renew clients in all four regions; win a contract with IBM by the time our new plant opens on March 1; get Salesforce.com in all regions but on a staggered schedule."

Step 3. Indicate in the appropriate cell how the available resources would be allocated in a scenario where everything proceeds as expected. For example, three salespeople in each region might be devoted to renewing customer contracts, while seven salespeople, the sample bus, and half of the travel budget might go toward winning the IBM contract.

Step 4. Declare which one or two projects are critical, designating which additional resources from the matrix can be called upon by the critical projects when and if needed. (If you declare more than one project critical, you must keep in mind that they cannot potentially depend upon the same pool of on-call resources.) For example, if the IBM contract is critical, you would ask the project head—in this case, your lead IBM salesperson—what additional resources might conceivably be needed if the going gets tough and where those resources might come. That could include some of the IT resources from the Salesforce implementation on the East Coast, which means that the Salesforce effort is now categorized as desirable and you cannot expect your people to fulfill the objective by a certain time. Projects that are not critical but aren't on call to potentially provide resources to a critical project now fall into the important category, where time or the objective is flexible.

As the projects and resources are listed and the group figures out how best to allocate resources and time constraints among the potential initiatives, this matrix becomes a strategy document. As projects are completed, leaders can revisit the process to reallocate resources that have been freed up. They can also reallocate resources if a crisis occurs—which by definition creates a critical priority. The same is true with a change of strategy.

The transparent allocation of resources and the specifying of responses to changed conditions align the team and head off dissension. Managers no longer feel that giving up resources reduces their status. They are playing an essential role in executing a critical priority. And they are content to be governed by the fair, inexorable logic of realistic priority setting instead of rank ordering that doesn't add up.

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STANISLAV CHEGLEEV/GETTY IMAGES

3. Keeping Sight of Your Company's Long-Term Vision

→ by RON ASHKENAS and PETER D. MOORE

ONE OF THE most visible and essential elements of your job as a leader is to create an exciting, unified vision of the longer-term future for your company or unit. (We discuss this imperative in more detail in Ron's book, the *Harvard Business Review Leader's Handbook*.) This is difficult enough, but even once a vision is in place, many leaders fail to execute on it over the many years that it may require. For example, a 2018 study by McKinsey found that only 16% of companies that were committed to a multiyear process of digital transformation reported sustainable performance improvement.

After many years of consulting work on large-scale change at dozens of firms across many industries, we are convinced that what holds most leaders back is that they don't translate the vision into a structured plan that they keep in focus over time. Of course, leaders know how to set goals, create measurable KPIs, use dashboards, and hold people accountable in the short term. When change efforts require years, however, tracking often gets fuzzy, falling away in the face of rapidly changing business and economic conditions that force constant adaptation to produce day-to-day results.

Take a large technology firm we worked with. Its senior leaders laid out a five-year aspiration to shift from hardware to software and services. In the first two years after the vision was announced, however, the senior team spent most of its time on activities associated with getting results from hardware products so that the current business wouldn't suffer. Meanwhile, the transformation of the core, while often mentioned in strategic updates and stakeholder reviews, still has not been fully realized.

In contrast, in 2013 Adobe Systems, with revenues of $4 billion, embarked on a major transition from a license sales model to a cloud-based subscription model. The company's revenue shrank 8% in the first year and was flat in the second year. Skeptics' and naysayers' voices rang loud and clear. Bolstered by the resolve of CEO Shantanu Narayen, however, the senior team stayed true to their longer-term strategic intent. Adobe's recurring revenues reached $6 billion in 2016 and $14 billion in 2022. Eighty percent of those revenues now come from subscriptions and associated sources.

What did Narayen and the Adobe team do right? How do you execute on a vision over time while coping with unanticipated distractions and the pressure to produce short-term results?

We have seen leaders use three approaches successfully to deal with these challenges and realize a multiyear vision—either singly or in combination:

- **Plan based on the vision.** Drive a structured yearly planning process that connects the long-term vision to short-term action.
- **Focus your experimentation.** Encourage projects that iterate toward the vision.
- **Train your people.** Develop training and education that make the vision come alive over time.

Let's look at each of these more closely.

Vision-based planning process. Most companies engage in a yearly planning process to define corporate objectives and budgets and then cascade these into goals for the business unit, department, and so forth. The starting point of this exercise is often financial, based on questions such as "What numbers do we need to satisfy investors?" and "How much improvement is possible over last year's performance?" But this approach forces short-term thinking. While the longer-term vision might be cited during the process, it isn't the driver for strategy, resource allocation, or individual action.

Instead, begin your planning process with the longer-term vision. That's what Jack Welch did as CEO of GE when he insisted that his leaders begin their planning process with "dreaming" sessions. His team would identify longer-term possibilities for what their businesses could become and then shape their yearly plans with those opportunities in mind.

Similarly, for over 20 years Salesforce CEO Marc Benioff has been using a planning method that begins with his steady overall vision for the firm and its software-as-a-service approach. He calls his method the V2MOM—vision, values, methods, obstacles, and measures. At the beginning of each year, Benioff drafts a one-pager for the entire company that, as the acronym suggests, first articulates the firm's overall vision and then spells out his thoughts about the key steps needed to move toward it. (The vision stays largely steady from year to year, whereas the implementation priorities and methods change.) He then gives the document to each of his direct reports and asks them to work with their teams to create a V2MOM document for their own groups. The leadership team then goes through all the V2MOMs to achieve full enterprise-wide alignment and commitment to their strategic intent for the next 12 months. Doing this ensures that every unit of the company understands and has agreed to the balance between short-term goals and the longer-term vision in their daily work.

Focused experimentation. Of course, not everyone is a founder or CEO who can drive vision realization from the top. Leaders at other levels can also drive deliberately toward a large-scale goal over time, particularly if they hone experimentation that is already happening in the company specifically to iterate toward that vision.

More often than not, visions don't become reality in a straight line, and we don't always know what it will take to get there. That's where experimentation comes in—shaping small tests to find out what will work and what will not on the path toward the vision, while also building support for it along the way. But without a focused approach, this experimentation may not lead to the ultimate goal you are trying to reach.

Take the story of Gary Scholten, an executive who led a successful effort to transform the Principal Financial Group, a global investment management firm, into a digital-first enterprise over the course of 11 years, despite all the distractions and change that came from the tenures of three different CEOs.

Scholten began advocating for a digital-first approach in 2011, when he was the company's corporate chief information officer (CIO). Even as the company made impressive initial advances toward that vision, each business unit responded differently, so those achievements were uneven. For example, the international business embraced mobile more quickly than its U.S. counterpart because many of their customers had better access to cell phones than to computers.

Several years later, now as head of corporate strategy as well as CIO, Scholten formed a digital strategy committee to oversee these efforts (the group included the corporate chief marketing officer, the business unit CIOs, and their senior business leaders). Together they identified dozens of digital experiments already underway at various levels of the company. Assessing each one, they identified six where the company should double down and invest proactively because of a clear sense that they would lead to faster growth or better efficiency or scalability than competitors. These included retirement enrollment tools to help employees save at a higher rate, robo advice embedded into life events, and AI-based investment research tools. By the end of 2020, when Scholten retired, these investments (and others that were added subsequently in a similar process) had an internal rate of return exceeding 20%, with two-thirds of the benefits coming from top-line growth—and the firm had indeed shifted much of its business to digital platforms.

Training and education.

The third approach is to invest in an educational process that gives people in the organization a deep understanding of what the vision actually means and how it could transform their work.

An example of this approach is illustrated by the work of Dr. Mieko Nishimizu, a former vice president for the South Asia region at the World Bank. When Nishimizu took on the role in the late 1990s, the World Bank addressed economic development and poverty reduction largely through a top-down approach of expert technical analysis, policy adjustment, and lending. Her vision, however, was for local communities and societies to take ownership of their own economic destinies and for institutions like the World Bank to function as more like partners, catalysts, and providers of resources to help them do that.

This vision required a profound shift in what the World Bank did and in how its staff worked with local individuals. For years, World Bank staff would parachute into countries from Washington, DC, and tell governments what to do. Now they would need to learn how to listen not just to officials but to those who experienced poverty and then work with them, side by side, to develop solutions.

To help them make the shift, Nishimizu created what came to be called the "village immersion program" in which members of her team would live the lives of the poor, in their villages, for two weeks. Her goal was not only for her staff members to understand the new role of the organization intellectually but to help them develop an emotional understanding that would eventually lead to changes in behavior. Eventually, Nishimizu made this program mandatory for certain categories of staff in her region, and over the course of several years, more than 200 staff members participated.

While this program was evolving, Nishimizu did continue to meet the yearly requirements for already-established projects and lending, but gradually, with the altered sensitivities of her staff, she changed the nature of the region's projects—and the image of the World Bank.

Of course, none of these approaches is easy, and they all require adjustments along the way. Benioff still works with his team to deal with trade-offs between long-term vision and short-term results. Scholten was able to successfully encourage digital experiments, but they didn't coalesce into the full vision until he figured out that the company would need to double down on a few companywide investments. Similarly, Nishimizu made progress in changing the World Bank's approach to poverty reduction not only by giving senior leaders an opportunity to experience village life but also by gradually leveraging the newfound understanding to reshape the nature of the World Bank's projects.

Turning a vision into a new reality doesn't happen overnight. But if you have persistence and stay true to your vision, it may be the most important contribution you'll ever make as a leader.

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JONATHAN KIRN/GETTY IMAGES

4. How to Get Better at Killing Bad Projects

→ by RONALD KLINGEBIEL

FAIL FAST, THE adage goes, and move on to the next big idea. Most innovation managers know that few of their initiatives will succeed, so they keep multiple projects running at the same time and create processes for quickly separating winners from losers.

One popular way to make decisions about what stays and what goes is the use of stage gates. This is when project leaders present their progress and findings to date, alongside updates to commercial expectations. Executives then decide whether to unlock funds for further development. For example, a project might have to pass reviews at one-, three-, and six-month milestones to determine whether it continues to promise return on the innovation investment.

Stage-gate processes improve on more laissez-faire steering methods in several ways: They aim to improve innovation effectiveness by separating project leadership from resource decision-making to avoid conflicts of interest; formalize points at which discontinuation decisions can be made; and nudge executives to critically compare projects with others.

Yet, even with stage gates, firms struggle to kill bad projects. Anyone who has ever had to pull the plug on a colleague's work knows how difficult it can be. Even supposedly ruthless venture capitalists often struggle to end projects at the right time.

Our research shows that the conventional use of stage gates, it turns out, can be part of the problem, impeding project discontinuation in counterintuitive ways. To reach this conclusion, we undertook a decade-long review of former handset maker Sony Ericsson. From its inception in 2001 to its dissolution into the Japanese parent in 2009, Sony Ericsson pursued about 200 handset projects. We tracked and compared their decision-making.

This unique historical analysis of the entirety of a firm's innovation portfolio reveals, among other things, the opportunity costs of not failing fast enough. Only one-sixth of projects were discontinued before launch. Sony Ericsson had some notable successes among the rest, but many phones brought in lackluster returns. With the development of flops drowning out more-promising projects, the firm could not muster enough innovation firepower to respond to the smartphone trend that eventually sealed its fate.

In our analysis, we found that Sony Ericsson initially misestimated the revenue from its projects by €182m on average. That figure is not far from what phones would typically make over the product's lifetime. Over- and underestimating happens in many companies, and scarce resources go to the most promising projects. And we know imprecision is par for the course in fast-changing markets with long development periods.

The problem begins when these misestimations lead to a flawed rank order of project candidates vying for development. (Sony Ericsson ran about 20 innovation projects at a time.) Project ideas with

Stage gates' well-intentioned focus on project performance can create decision paralysis.

early promise might get prioritized for funding but go on to disappoint. Meanwhile, others that look less promising in early stages miss out on funding but wind up becoming market hits. Stage gates, if used effectively, can help decision-makers notice and act on such changes to project expectations.

Over the span of a year of product development, Sony Ericsson indeed gained new information—like customer-preference changes, competitors' moves, or technological shifts—that reduced its project misestimations to €66m on average. But despite this new information, Sony Ericsson struggled to correct its rank order of projects when making stage-gate decisions. The company continued to fund projects whose business cases no longer looked as great as initially thought, thus preventing investments in projects whose business cases might have ranked higher.

How can the organization of your innovation function act quickly on information gains? From our research, we recommend three modifications to your stage-gate approach to ensure that you're stopping projects efficiently.

Forgo proof of failure. When you're dealing with the uncertainty of a new product or market, there is no reliable proof that a project is going to fail—and no stage gate will offer you that proof. What may ultimately be more useful for making continued go or no-go decisions is a qualitative assessment of changes to the main assumptions underlying the business case that led you to invest in the project in the first place.

Sony Ericsson typically used seven stage gates, beginning with "concept" and concluding with "ship." Few projects offered sufficient visibility to track reliable financial KPIs in the early stages. Concrete figures were often either not provided or not reliable. In interviews we conducted as part of our research, we found that few placed trust in such early estimates. A lack of solid figures does not mean a lack of reasons to discontinue projects, however. For example, Sony Ericsson could quickly notice changes in customer preferences, such as the extent to which a bigger camera would still distinguish a new handset, even if exact revenue figures were hard to come by. Trying to quantify the possible negative revenue implications of such trends for mass-market handset returns would mean months of resources kept from other, and often more promising, endeavors.

The qualitative insights available about customer-preference changes could have permitted a reallocation of development resources from cameras to other improvements even if quantifying the deterioration of camera-phone prospects was not yet possible. In a hunt for conclusive proof that something would fail, resources were locked up in ultimately failing projects, starving others of much needed support.

Sleuth the business case. It's easier to refine project-return estimations as a project nears launch. The unfortunate reality at many firms, including Sony Ericsson, is that near launch, attention shifts to delivery—and few like to disrupt execution. As a result, project managers often do not feel the need to bother with updating business cases with the latest insights. Sony Ericsson all but ceased project discontinuations about halfway through its development process.

Even if it's late in the game, discontinuation remains hugely important, considering that most projects consume the majority of their development resources in those later stages, as things move toward mass production. A single late-stage project can prevent dozens of alternative early-stage ideas from being funded. Failing to update business cases near launch, and thus missing signals of failure, ends up being disproportionately expensive.

To counteract the shift in priorities in the later part of stage-gate processes, it may be advisable to create the roles of business-case sleuths. Free from the pressures of project execution, and answerable to portfolio performance only, such detectives could go after changes to business-case assumptions when others have lost interest in evaluation and focus on getting across the finish line. Independent sleuths allow decision-makers to build on new information about technological advancements, customer preferences, competitors' moves, or other factors with bearing on project business cases when these have the greatest resource implications. Averting one expensive fail stands to more than pay for the extra business-case detective on your team.

Don't sweat the kill. The most troubling insight from our research was that stage gates' well-intentioned focus on project performance can create decision paralysis. Once a project showed a clearly deteriorating business case, Sony Ericsson spent a disproportionate amount of time discussing it. The handset maker often postponed and revisited decisions. Instead of discontinuing its worst performers, Sony Ericsson more likely downgraded expectations and thus made it look as if targets were met. Ironically, the firm had a much easier time discontinuing projects that did not show business-case deteriorations. For example, if a novel swivel functionality for a clamshell phone proved hard to technically implement, executives shut the project down more quickly than if clamshells themselves looked to be falling out of customers' favor, reducing sales expectations.

The heightened attention to bad projects would be better placed on more-promising alternatives. There is also the question of how much better a flagging business case can become, even if you look at it long and hard. Such attentional inertia can be reduced by minimizing the scope for interpretation and discussion. Setting clear discontinuation criteria beforehand ensures swifter, more automatic responses, preserving stage-gate decision-makers' emotional energy for worthier pursuits.

Overall, our unique analysis of the entire new-product development portfolio of a firm's life offers a cautionary tale. Using stage-gate processes has on occasion been criticized for the tendency to bias against more-daring innovation; less known has been the potential to escalate commitment, the very bias stage gates are intended to avoid. As a resource allocator, you should understand the impossibility to reduce commercial uncertainty in early stages as well as your staff's natural reluctance to reduce uncertainty in later stages.

Finally, don't let decision paralysis set in when performance lags. Selective project progression is key in markets where investment occurs prior to knowing, and where learning during development determines the chances of success.

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WESTEND61/GETTY IMAGES

5. Strategy Isn't What You Say—It's What You Do

→ by ROGER L. MARTIN

YOU SOMETIMES HEAR managers complain that their organization has no strategy. This isn't true. Every organization has a strategy: Its strategy is what it does. Think about it. Every organization competes in a particular place, in a particular way, with a set of capabilities and management systems—all of which are the result of choices that people in the organization have made and are making every day.

When managers complain that their company's strategy is ineffectual or nonexistent, it's often because they haven't quite realized that their strategy is what they're doing rather than what their bosses are saying. In nine cases out of 10, the company will have an ambitious "strategy statement" or mission of some kind: "We are going to be the best in the world in our industry and always lead innovation to the benefit of all of our customers."

The bosses will have worked hard to come up with such a statement, and it may very well be a praiseworthy one. But unless it is reflected in the actions of an organization, it is not the organization's strategy. A company's strategy is what the company's people are actually doing, not the slogan their bosses intone.

The point is that everyone needs to connect the dots. If strategy is what people do rather than what bosses say, it is absolutely critical that each person in the organization knows what it means to take actions that are consistent with the intent of the strategy as asserted.

Strategic choice-making cascades down the entire organization, from top to bottom. This means that every person in the company has a key role to play in making strategy. Performing that role well means thinking hard about four things:

1. What is the strategic intent of the leaders of the level above mine?
2. What are the key choices that I make in my jurisdiction?
3. With what strategic logic can I align those choices with those above me?
4. How can I communicate the logic of my strategy choices to those who report to me?

If you as a manager can do the first three of these four, then you will own your choices and own your strategy. If you do the fourth, you will set up your subordinates to repeat these four things and thereby own their choices and their strategy, and pass on the task to the next layer of the company. If each successive layer assumes this level of ownership, the organization can make its bosses' statement a real strategy rather than an empty slogan.

And your bosses' job? It's to make sure to start the ball rolling by communicating their strategy choices well. Unless they do so, it won't matter a whit how good their choices appear to be. They won't be reflected in what you end up doing.

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TARA MOORE/GETTY IMAGES

6. How to Prioritize Your Work When Your Manager Doesn't

→ by AMY JEN SU

PRIORITIZING WORK CAN be frustrating, especially if you work for a hands-off manager or a company that doesn't give you clear goals. Most of us face this reality every day. The frequently cited research of Robert Kaplan and David Norton shows that more than 90% of employees don't fully understand their company's strategy or know what's expected of them to help achieve company goals. Compounding the problem, recent research shows that global executives say they have too many conflicting priorities. How can you learn to prioritize your own work and still feel satisfaction from a job well done?

> If you don’t prioritize your time, someone else will, and it won’t always be with your best interests in mind.

Take ownership. First, check your mindset when it comes to setting priorities. Don’t assume that prioritizing your workload is someone else’s job, and don’t choose to see yourself solely as a doer or a “worker bee.” It’s easy to point blame at our managers and organizations when we experience high levels of stress or an overwhelming amount of work. Recognize that consciously setting priorities is a key pillar of success. You can start today by assessing how well you’re handling the increased workload that comes with being a leader.

Filter priorities. Select a couple of areas to set priorities in; this can help the brain manage information overload. Researchers have found that having too many options can paralyze us or lead to decisions that go against our best interests. Two criteria I use with clients to determine priorities include contribution and passion. Consider your role today and answer the following questions:

- **What is my highest contribution?** When we reflect on contribution, we consider both the organization’s needs and how we uniquely bring to bear strengths, experience, and capabilities. The word *contribution* captures a sense of purpose, citizenship, and service.
- **What am I passionate about?** Motivation and energy fuel action, so when setting priorities, get clear on what brings you inspiration in your work today.

Determine next steps with an organizing framework. We can put the two criteria of contribution and passion together to create an organizing framework. The framework can help you sort priorities and define subsequent actions. Consider this chart:

QUADRANT I

Prioritize those areas of your job that hit this sweet-spot intersection of bringing your highest value-add and making an impact that you feel excited about. Look at the answers to the two questions above and see which projects, initiatives, and activities show up on both your high-contribution and high-passion lists.

QUADRANT II

Tolerate those parts of the role that are important but drain your energy when you’re engaging in them. What are the possible discomforts, and what can you do about them?

- **Tolerate and accept that you aren’t going to love every part of the job.** For example, you may be excited about having a larger role and team but less excited about the increase in managerial processes and administration that comes with it.
- **Tolerate the fact that you may be on a learning curve.** Perhaps a key part of the job includes something that isn’t yet a strength, such as presenting at town hall meetings or being more visible externally. Keep a growth mindset and push yourself out of the comfort zone.
- **Remember that there is a tipping point in this quadrant.** For example, your highest contribution in a strategy role may never offer you the passion you feel when coaching people. The quadrant could highlight that it’s time for a change (which was my situation more than 15 years ago, when no amount of prioritizing was ever going to overcome the fact that I was in the wrong career).

QUADRANT III

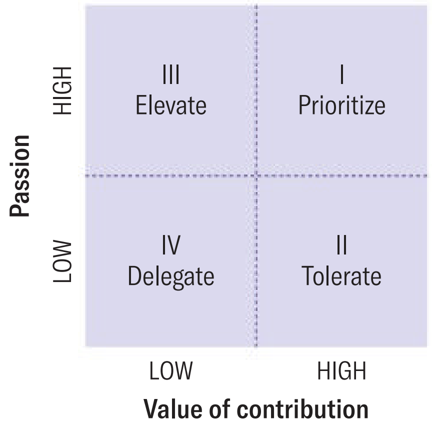
Elevate those tasks that give you a lot of energy but that others don’t see as the best use of your time. Where are the possible points of elevation?

- **Elevate the value-add.** Perhaps you see a hot new area, but the impact is less clear to others. Share what you are seeing out on the horizon that fuels your conviction, and explain why it’s good not only for you but also for the company.
- **Elevate yourself.** Be mindful of areas you still enjoy, perhaps from a previous role or from when the company was smaller. Maybe you love to fix problems and have a bias toward action, which leads you to get involved in things your team should be handling. Hit pause before diving in.

Ultimately, if the disconnect grows between what keeps you motivated and what your organization values, it may be time to move on.

Which Tasks Should You Prioritize?

Focus on those that align your passion with where you can contribute most. Tolerate, elevate, and delegate the rest.



Source: Paravis Partners

QUADRANT IV

Delegate the daily churn of low-value and low-energy-producing activities, emails, and meetings. If there's no one to delegate to, make the case for hiring someone. You can also just say no or eliminate those tasks altogether. The irony is, as we progress in our careers, things that were once in quadrant I now belong in quadrant IV. If people still come to you for these tasks, redirect them graciously by saying something like, "It's so great to see you. I know how important this is. I've asked Kate on my team to take on those issues, and she'll be able to get you a more direct and speedy answer."

Operationalize and flag priorities in your calendar. Look back on your calendar over the past month to see how much time you allocated across the four quadrants. I personally use a color-coding system in my calendar to quickly and visually see how I'm doing (QI = yellow, QII = purple, QIII = blue, QIV = no color). At the start of a week, flag all QI priorities and give yourself a little extra preparation time on them.

Don't settle for the status quo. As Greg McKeown, author of *Essentialism,* shares, if you don't prioritize your time, someone else will. And it won't always be with your best interests or the greater good in mind. So take ownership and reclaim decision-making power over where you can best spend your time and energy. By doing so, you set yourself on a trajectory to produce meaningful results, experience more job satisfaction, and have increased energy.

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HENRIK SORENSEN/GETTY IMAGES

7. Communicating a Corporate Vision to Your Team

→ by KELLY DECKER and BEN DECKER

AMIT* MANAGES A team of 40 people around the globe for a massive tech company. After months of furiously working on a new product to be the first to market, his boss told him that the company's strategy had shifted. The product's launch plans were then delayed, and competitors began gobbling up market share. Amit's team felt deflated. Instead of celebrating a launch, they found themselves mired in more contract negotiations, tactical challenges, and follow-up calls. They doubted the new strategy. Amit had to restore their trust and motivation. He needed to communicate vision.

Let's clear something up. Amit's big task was not to *set* the vision. In this case, the product strategy had changed at the top. His job was to translate the executives' thinking behind the changes so that his team could understand *why* things had changed and *how* they were supposed to redirect their efforts. After all, they were now being told to scrap all the work that was done, go back to the drawing board, and renegotiate every painstaking contract. Without clarity around the *why* and *how,* it would be hard for them to execute the new strategy.

There are two things to remember when trying to communicate an organizational vision to your team. First, you have to target your message. Your team in IT has different needs than Susan's team in marketing. Leaders are responsible for translating the same vision into different messages that their unique teams will respond to. Second, augment logical reasoning with an emotional appeal to inspire. That's how you get buy-in and shift the team's response from "I have to" to "I want to."

We've developed a communication approach that breaks this down into four key components to be addressed: listeners, point of view, actions, and benefits:

Understand your listeners. Step back and think about your team. Sure, you know the player roster well, but attitudes change over time (for example, from the beginning of a project to the end). Before you start on the vision, answer the following questions about your team:

- What do they know about the current status of your project or goal or bigger strategy? What are they expecting? How do they feel about the team and organization right now?
- How would they challenge the vision? What would make them resistant?
- How can I help them? What problems am I trying to solve that will make their lives better in some way?

Find the lede of your story. With the broader vision in mind, it's time to develop the specific point of view for your team. Think of this as the why behind the message. What is the one thing that you want everyone to walk away knowing? (Warning: Don't get too granular or tactical. You're looking for a motivator—some way to get the team to nod their heads and accept the change.) For Amit's team, he couldn't default to something as narrow as, "We need to negotiate new contracts for the new changes to our product." Yes, that was a key element (and it needed motivation!), but that wasn't an inspiring vision. Instead, he had to make it bigger. "Our current product faced a massive risk of being commoditized. Our products have never been commodities! We must always position ourselves as the leader in this space."

Point the way. After you have developed your point of view, it's time to zero in on your next challenge: converting vision into action—or pointing your team toward the right direction so that they can make something happen. You don't have to lay out every step that leads to your ultimate goal, but you have to be specific and set benchmarks and deadlines. Action steps have to be physical, timed, and measurable to pave a way toward the vision that the team can actually see. For instance, Amit's team had much work to complete over the next quarter. To get them started on renegotiating the contracts immediately, he asked each of them to schedule meetings with three key stakeholders by the end of the week.

Give them a reason to believe. Your message also has to address what's in it for them—each of them. Too often we provide a laundry list of general benefits that are far too removed to really motivate anyone. Better ROI, increased top-line growth, and greater customer satisfaction are all great for the organization...they just don't mean that much to us as individuals. Team leaders have to drive the benefit down to the individual level as much

How to Communicate an Organizational Vision to Your Team

Four steps to move them to action.

NEW COMPANY VISION EXAMPLE:

"We're shifting our focus to the cloud instead of developing separate services for each client."

1. **Think about your audience.** What do they care most about?

Your product development team cares about the end result; they want to be proud of the product they built.

2. **Target the message to their needs.** How is the vision relevant to them?

Say, "Our goal is to always be industry leaders. A cloud-based service is a better way of achieving that."

3. **Lay out action steps.** What are specific, measurable goals and deadlines?

"Our first major task is to meet with our key stakeholders and get their input on the new design by the end of next week."

4. **Engage their emotions.** How will they benefit in the end?

"This will streamline a lot of your future work, and your name will be forever tied to the success of this project."

> ■■ **Describe exactly what success will look like for your team so that everyone envisions the same goal.**

as possible. The best way to do this is to connect the dots. Go back to how you described your team. Amit could appeal to his team's pride in leading the industry or the accolades they would add to their professional trophy cases: "Look at what you'll create." This individual focus engages people's emotions and moves them to action. After all, logic makes us think; emotion drives us to act.

Emotion can also come from analogies, stories, or concrete examples that illustrate what success looks like. As Chip and Dan Heath describe in *Switch: How to Change Things When Change Is Hard,* you want to create a destination postcard or "a vivid picture from the near-term future that shows what could be possible." Describe exactly what success will look like for your team so that everyone envisions the same goal. They should reach the same answers for questions like: How will customers feel when they use the product? What will the analysts say? How about kudos from the top? What do the ratings and reviews show?

To get his team's buy-in, Amit had to be more transparent about why the company was shifting to the new plan and demonstrate that he was listening. So, he explained how individual strengths and contributions from team members would move them forward. This approach helped Amit's team feel proud and invested, yet again. The change in morale was noticeable across emails and check-ins. His team started building momentum again.

As a team leader, you're not always the one to set the grand overarching vision, but your role— communicating it and casting it in a way that motivates your team—is essential. Getting your team to see how their work matters on an organizational level will keep them motivated and productive—especially during times of change. It will also reflect well on you as their manager. That's the value of the vision.

**Name has been changed.*

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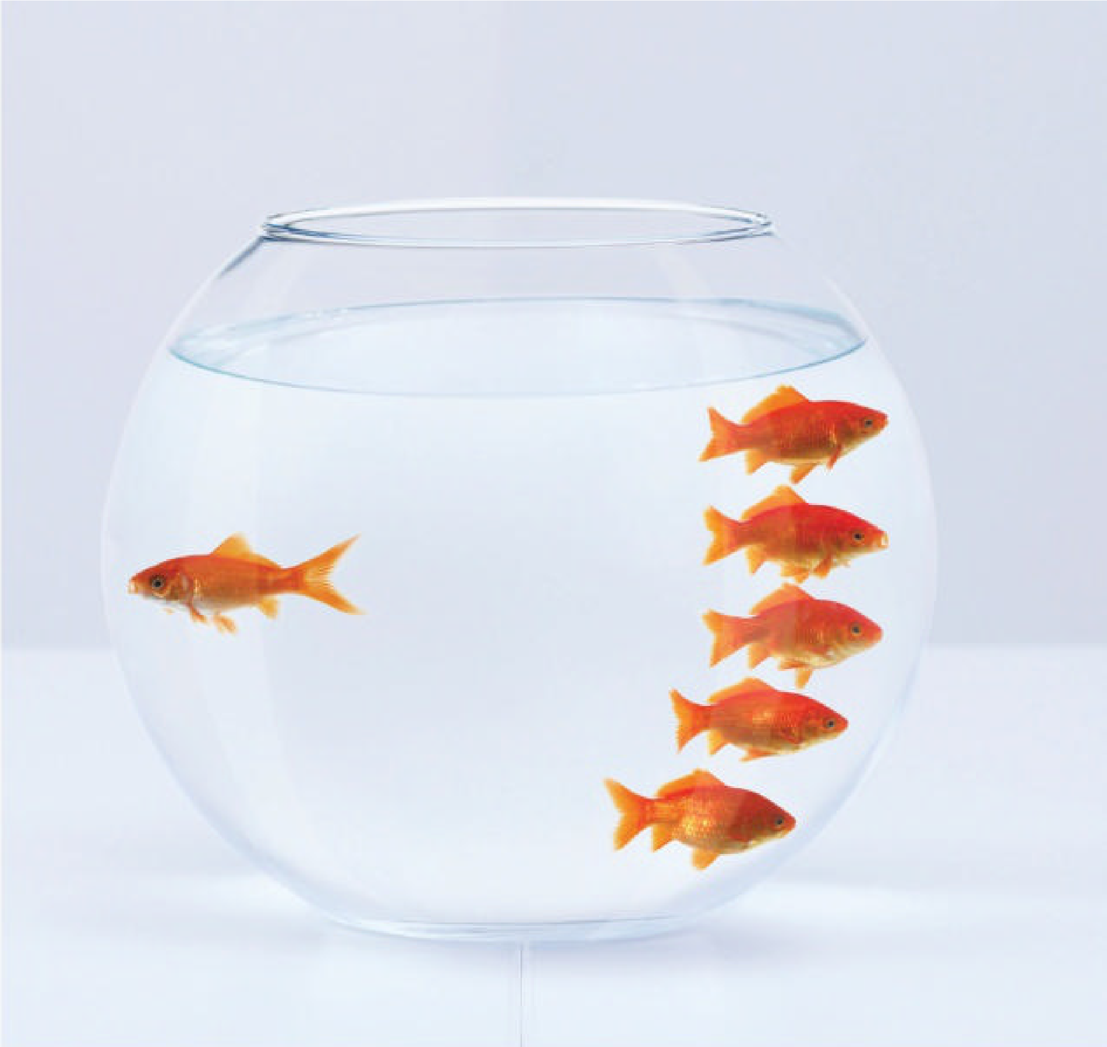

8. When You Think the Strategy Is Wrong

→ by AMY GALLO

CHANCES ARE THAT at some point in your career you've been asked to implement a strategy that someone other than yourself developed. A manager's job is to implement that strategy and to be sure that their team, unit, or department executes well. But what if you believe the strategy you've been asked to implement is flawed? Perhaps you think that it won't achieve the intended result or worse, that it will put the company at risk. Regardless of the severity of your concern, you have an obligation to speak up. However, immediately pulling the strategy fire alarm isn't always useful and may brand you as an alarmist. It's important to find ways to express your concerns productively. By acting cautiously and thoughtfully, you can make your concerns heard while perhaps saving your team—or the company—time, energy, and money.

What the Experts Say

Strategy development is a difficult, time-intensive, and often messy process. The end result is never perfect. However, as a good citizen in any organization, you have an obligation to act if you see something wrong with your organization's strategy. Linda Hill, the Wallace Brett Donham Professor of Business Administration at the Harvard Business School and author of *Becoming a Manager: How New Managers Master the Challenges of Leadership,* says, "Anyone with a deep commitment to the organization owes it to that organization to ask questions and clear up confusions." However, you need to proceed cautiously. Don Sull, a professor of management practice in strategic and international management, the faculty director of Executive Education at the London Business School, and the author of *The Upside of Turbulence: Seizing Opportunity in an Uncertain World,* cautions, "Saying, 'This is stupid and wrong' isn't helpful." Before you cry "wrong strategy," follow these three steps to understand what is truly at stake and explore your motivations.

1. Diagnose: Understand the full picture. An organization's strategy is often steeped in complex political issues. Before you speak up, try to understand the situation in which the strategy was developed. As Gary Neilson, a senior partner at Booz & Company and coauthor of *Results: Keep What's Good, Fix What's Wrong, and Unlock Great Performance*, points out, "Too many people view themselves as a self-appointed strategist for the company." Don't assume you know how or why the strategy was developed. Use your network to find out more about the process and the assumptions used. According to Hill, a good network will return useful information and advice if it includes a diverse set of people who have differing perspectives—what Hill calls "a personal board of directors." Send out feelers to get more background about what went into the strategy and what its intended purpose is. Try to understand what problem the company's leaders are trying to solve with the current strategy or if there is a shift in priorities that you don't know about. Gaining a perspective on what went into the strategy can help you reflect on what is underlying your concerns.

2. Reflect: Contextualize your concerns. When it comes to strategy, right or wrong is in the eye of the beholder. Sull points out that a "good enough strategy excellently implemented will trump a perfect strategy lukewarmly implemented nine times out of 10." Because no strategy is infallible, it's likely that there are things you feel should be different, but these things don't necessarily require you to cause a mutiny. Neilson urges concerned employees to ask themselves, "Is it that you would have expected a different direction, or do you believe that the analysis, facts, or process that the company used [were] flawed?" It's your job to understand what about your unease is critical to raise and what is simply the result of a difference of opinion.

It's also important to ask yourself if you are using your objections as a reason not to do something difficult. Sull says, "Middle managers may use imperfect strategy as an excuse not to take initiative." It may be that your unease is rooted in your resistance to change or resentment about not being included in the strategy development process. It's better to know the true source of your concerns before speaking up. After you've done your research and reflected on your true motivations, if your concerns remain, it's time to verbalize them.

3. Speak up: Proceed carefully. You should start by going to your direct manager to share your apprehensions. Your manager may or may not have been involved in the development of the strategy, but hopefully they will know more about the background. This is a conversation that should happen in private (see Linda Hill's experience in Case Study 2 below). Take an inquiry stance, asking questions and enlisting your manager's help in understanding why the company has chosen this strategy. You can use questions such as "What are the assumptions behind the strategy?," "Could you explain to me why this particular

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piece is important?," or "What scope do we have to adjust the strategy to the realities of the local market?"

It is important when sharing your concerns that you provide data that supports why you're raising questions in the first place. If you've done your research, you should have this information at the ready. You can make this conversation more successful by proposing alternative solutions that would help mitigate the risks you see. Be sure that you don't accuse your manager or hold them responsible. You should make clear that you are not questioning their authority but trying to better understand the strategy you've been asked to implement.

When to Let It Go—and When Not To

After taking the above steps, if your concerns have been shrugged off or disputed, you may need to choose your battles. "Skepticism is hugely helpful in organizations, but bloody-minded obstinacy is not," Sull says. People have very little respect for someone who ruthlessly fights over imperfections. You may have to trust your boss or other superiors especially, because they may not be at liberty to disclose certain issues. "In those cases, you may want to say, 'If you truly think this is the right direction, I will do it,'" Hill suggests.

Sull points out that there are rare cases where the strategy is putting the company at such risk that you may want to consider leaving. There may be ethical concerns, or the company may fail if the strategy is pursued in its current form. If faced with a strategy that is severely flawed or that you just can't comfortably support, you may decide to quit. "If the manager believes there were fact-based errors, such as the strategy choice was just a negotiated settlement between two warring executives who feared losing turf, then the manager should ask whether they should really stay at the company for their own benefit and the company's," says Neilson. If you do leave, don't bury your concerns. Write a letter to the CEO, no matter where you are in the organization, explaining your decision and the risks you see in the strategy.

Principles to Remember

Do:

- Understand the root cause of your concerns
- Research the inputs and assumptions underlying the strategy
- Express your concerns to your immediate boss first

Don't:

- Insist that your concerns be heeded
- Assume you know the assumptions or reasoning behind the strategy
- Question the strategy in a public setting

Advice in Practice

CASE STUDY 1

When the Competitive Advantage Is a Disadvantage

In 2005 Laura Casela *(some details, including her name, have been changed)* joined a strategic communications firm started by two former consulting colleagues of hers. Laura was brought in as the director of business development to help grow the year-old firm. Laura was excited about her new role and about the company's future. The firm was founded on a unique premise. Most communications firms rely on freelance writers to do a lot of their work, and clients have little knowledge about who these writers are. Laura's colleagues decided to change that by hiring stay-at-home moms who had left the industry to have more time with their families. They felt this was an untapped and experienced resource and if leveraged appropriately, could be a competitive advantage for the young firm. They built their brand around this hiring approach and had success with it in their first year in the market.

However, soon after taking the job, Laura discovered that the leads she was pursuing were not turning over. She was able to capture referrals, but when new leads went to the website, they seemed to lose interest. She spoke with a few would-be clients about what turned them away, and they explained they weren't looking for a business of stay-at-home moms. Many said it just didn't feel like "a right fit." Laura realized that "clients wanted the best writers they could get, and they were hiring a communications firm to do the hiring for them. They didn't care who did the work as long as the work was great." Laura was conflicted. She believed in the brand and like the founders thought it would help them stand out in the crowded New York market. But the evidence showed something different. Laura shared what she learned with her colleagues and explained that despite how much she believed in

■■ **Before you speak up, try to understand the situation in which the strategy was developed.**

the principle, this was an angle they should drop. The founders were surprised, but they were open to what Laura had to say, primarily because of the evidence she provided, including client feedback and emails. Laura's speaking up had a huge impact, and the firm's founders, together with Laura, are now working with a strategy consultant to rethink their branding.

CASE STUDY 2

Openly Questioning Strategy

Linda Hill is a professor at Harvard Business School and one of our experts from above. As a member of the faculty, it is part of Linda's role to contribute to and implement the various strategies of the Business School. A few years back, during a faculty meeting, the dean of the school announced a new strategy for handling a commonly understood issue. Linda was confused about what the dean proposed, so she asked why he had chosen that particular strategy. To Linda, it didn't seem as if the action he proposed would solve the problem he was trying to address. The dean responded, "You're right, but I can't say what the issue is." There was immediate tension in the room, and Linda knew right away that she had embarrassed the dean.

Later Linda found out that the problem the dean said he wanted to solve was not truly the problem at hand. She also found out that she had risked her relationship with him by questioning him in such a public manner. He told a colleague that he wished more people were up front and honest like Linda but that she had hurt his feelings. Linda said, "In retrospect, I wouldn't do it that way again. I would ask my questions one-on-one."

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Executive Summaries

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Strategic thinkers question the status quo. They challenge their own and others' assumptions and encourage divergent points of view.

STRATEGIC LEADERSHIP: THE ESSENTIAL SKILLS
PAGE 10

What Is Strategic Thinking?

Strategic Leadership: The Essential Skills

Paul J.H. Schoemaker, Steve Krupp, and Samantha Howland | page 10

The more uncertain your environment, the greater the opportunity—if you have the leadership skills to capitalize on it. Research at the Wharton School and at the authors' consulting firm, involving more than 20,000 executives to date, has identified six skills that, when mastered and used in concert, allow leaders to think strategically and navigate the unknown effectively. They are the abilities to anticipate, challenge, interpret, decide, align, and learn. This article describes the six skills in detail and includes a self-assessment that will enable you to identify the ones that most need your attention. The authors have found that strength in one skill cannot easily compensate for a deficit in another. An adaptive strategic leader has learned to apply all six at once.

HBR Reprint R1301L

See the Bigger Perspective

Zoom In, Zoom Out

Rosabeth Moss Kanter | page 28

Zoom buttons on digital devices let us examine images from many viewpoints. They also provide an apt metaphor for modes of strategic thinking. Some people prefer to see things up close, others from afar. Both perspectives have virtues. But they should not be fixed positions, says Harvard Business School's Kanter. To get a complete picture, leaders need to zoom in and zoom out.

A close-in perspective is often found in relationship-intensive settings. It brings details into sharp focus and makes opportunities look large and compelling. But it can have significant downsides. Leaders who prefer to zoom in tend to create policies and systems that depend too much on politics and favors. They can focus too closely on personal status and on turf protection. And they often miss the big picture. When leaders zoom out, they can see events in context and as examples of general trends. They are able to make decisions based on principles. Yet a far-out perspective also has traps. Leaders can be so high above the fray that they don't recognize emerging threats. Having zoomed out to examine all possible routes, they may fail to notice when the moment is right for action on one path. They may also seem too remote and aloof to their staffs.

The best leaders can zoom in to examine problems and then zoom out to look for patterns and causes. They don't divide the world into extremes—idiosyncratic or structural, situational or strategic, emotional or contextual. The point is not to choose one over the other but to learn to move across a continuum of perspectives.

HBR Reprint R1103K

Are You Ignoring Trends That Could Shake Up Your Business?

Elie Ofek and Luc Wathieu | page 36

Virtually all managers in consumer businesses recognize major social, economic, and technological trends. But many do not consider the profound ways in which trends—especially those that seem unrelated to their core markets—influence consumers' aspirations, attitudes, and behaviors. As a result, companies may be ceding to rivals an opportunity to transform the industry.

For instance, the impact of the digital revolution on consumers' daily lives is hardly a revelation. But it may be less obvious that heavy digital users tend to focus on short-term goals, demand immediate gratification, and expect to multitask. That insight, the authors argue, is as important for a company that sells lipstick as it is for one that sells smartphones.

The authors present a process for identifying the trends that could reshape a business and three strategies for leveraging trends to create new value propositions:

Infuse aspects of the trend into the product category to *augment* traditional offerings, as Coach did with its lower-priced Poppy handbags.

Combine aspects of the trend with attributes of the category to produce offerings that *transcend* it, as Nike did with its Nike+ sports kit and web service.

Or *counteract* negative effects of the trend with new products and services that *reaffirm* the category's values, as iToys did with its ME2 video game, which encourages children to be physically active.

HBR Reprint R1007M

Skate to Where the Money Will Be

Clayton M. Christensen, Michael E. Raynor, and Matthew Verlinden | page 44

What was it Wayne Gretzky said about why he was so good at hockey? He just skated to where the puck was going next. Executives and investors wish they could do so too, to sense where profits are going next. Following a six-year study of profitability patterns, the authors have developed a model for doing just that.

In the early stages of a product's evolution, companies compete on the basis of performance. And since they can't make substantial improvements in product performance unless the entire value chain is housed under one organizational roof, it works best if companies are vertically integrated. But as the underlying technology improves to meet the needs of most customers, companies begin to compete on the basis of convenience, customization, price, and flexibility. At that point, vertical integration is no longer an advantage—in fact, it quickly becomes a disadvantage. Different links in the industry value chain become modular, and the chain subsequently fragments.

In either stage, most profitability goes to the companies that own the interdependent links in the value chain—the places where everyone's still vying to satisfy their customers with ever-better product functionality. Initially, that's the makers of the proprietary products aimed at the end-use consumers. But as those products become standardized, profitability shifts to the makers of components, and as components themselves become standardized, it can shift further back in the value chain.

That's predictable, but it causes a problem for incumbents. As their products become commodities and profits decline, pressure from investors to maintain ROA causes them to spin off asset-intensive units that design and manufacture components—the very places where profits are heading.

HBR Reprint R0110D

Outsmart Your Assumptions

The Hidden Traps in Decision-Making

John S. Hammond, Ralph L. Keeney, and Howard Raiffa | page 62

Bad decisions can often be traced back to the way the decisions were made—the alternatives were not clearly defined, the right information was not collected, the costs and benefits were not accurately weighed. But sometimes the fault lies not in the decision-making process but rather in the mind of the decision-maker. The way the human brain works can sabotage the choices we make.

In this article, first published in 1998, John Hammond, Ralph Keeney, and Howard Raiffa examine eight psychological traps that can affect the way we make business decisions. The *anchoring trap* leads us to give disproportionate weight to the first information we receive. The *status-quo trap* biases us toward maintaining the current situation—even when better alternatives exist. The *sunk-cost trap* inclines us to perpetuate the mistakes of the past. The *confirming-evidence trap* leads us to seek out information supporting an existing predilection and to discount opposing information. The *framing trap* occurs when we misstate a problem, undermining the entire decision-making process. The *overconfidence trap* makes us overestimate the accuracy of our forecasts. The *prudence trap* leads us to be overcautious when we make estimates about uncertain events. And the *recallability trap* prompts us to give undue weight to recent, dramatic events.

The best way to avoid all the traps is awareness—forewarned is forearmed. But executives can also take other simple steps to protect themselves and their organizations from these mental lapses. The authors describe what managers can do to ensure that their important business decisions are sound and reliable.

HBR Reprint R0601K

Executive Summaries

Outsmart Your Assumptions

Outsmart Your Own Biases

Jack B. Soll, Katherine L. Milkman, and John W. Payne | page 72

When making decisions, we all rely too heavily on intuition and use flawed reasoning sometimes. But it's possible to fight these pernicious sources of bias by learning to spot them and using the techniques presented in this article, gleaned from the latest research. They'll open up your thinking about possible outcomes, objectives, and options and lead to better choices.

To broaden your perspective on the future, the authors suggest, you can use proven tactics for improving the accuracy of estimates and preparing for contingencies. You'll think more expansively about your objectives if you come up with many possibilities before deciding what's most important, get input from others, and then carefully examine one goal at a time. And you'll generate better options if you identify several and evaluate them side by side. Don't settle for the first one that's acceptable; imagine that you can't pursue it, and you might find an even stronger alternative.

Strong emotional attachments or investments make cognitive biases even harder to overcome. When that's the case, use checklists and algorithms to stay focused on the right things, and set "trip wires" to trigger planned responses at key points in the decision-making process.

HBR Reprint R1505D

Align with Your Company's Strategy

Stress-Test Your Strategy: The 7 Questions to Ask

Robert Simons | page 86

An economic downturn can quickly expose the shortcomings of your business strategy. But can you identify its weak points in good times as well? And can you focus on those weak points that really matter?

Drawing on some 25 years of research, Harvard Business School professor Robert Simons identifies seven questions all executives should ask in order to ensure their strategies' success. Have you identified your primary customer? Decided whether shareholders, employees, or customers come first? Narrowed down which performance variables to track? Have you set creative boundaries? Are you generating creative tension? Are you promoting cooperation among your employees? And at the end of the day (and in the middle of the night), are you thinking about the right issues as you ponder how the future will change your business?

The answers to these questions can be tough, and their full implications are not always immediately clear. Simons provides a real-world guide to the various alternatives and their risks, illustrating his points with examples from companies including Home Depot, McDonald's, Merck, and Pfizer.

There is no magic bullet that can target the pitfalls of your business strategy, Simons concludes. But you must engage in ongoing, face-to-face dialogue with those around you concerning emerging data, unspoken assumptions, difficult choices, and, ultimately, action plans. You and they must be able to give clear, consistent answers to the seven questions Simons poses if you want to be sure that your strategy is firmly on track.

HBR Reprint R1011G

How to Make the Most of Your Company's Strategy

Stephen Bungay | page 96

Corporate strategy often seems abstract to managers on the ground, who struggle to translate it into a realistic plan of action. But a process called strategy briefing, which originated with the military, can help them overcome that challenge. Bungay, the director of the Ashridge Strategic Management Centre, describes in this article how briefings can move managers and their reports from confusion about a complex set of goals and performance measures to clarity about just which objectives each person needs to focus on and in what order. Using a fictional case study as an illustration, Bungay outlines the five critical steps of the process:

1. State your intent, or what you are expected to do and why.
2. Revise it in the context of your company's situation.
3. Determine which measures indicate whether you're achieving your goal.
4. Define the tasks implied by your intent.
5. Define the boundaries, or constraints, that limit your team.

A single strategy briefing can help a team perform better, but the real magic happens when briefings roll down through an entire organization. When that occurs, the company's strategy is broken into a cascade of discrete but linked elements. In the end, people will be strategically aligned and operationally autonomous—a combination that is one of the hallmarks of high-performance organizations.

HBR Reprint R1101L

CSC:Miami

Content Supply Chains must be forensic in their detail.

Television broadcasters have long relied on instinct, market knowledge and spreadsheets to forecast TV viewership - but instinct needs to partner with information; market knowledge is never enough; and spreadsheets are no way to excel.

As witness to these challenges, Fractal undertook its own detective work.

By combining AI, data engineering and user-centric design, Fractal created an industry-first TV forecasting system for Europe's leading media and entertainment company. The result? Up to 30% improvement in forecast accuracy.

Fractal: perfectly targeted and timed TV, no drama.

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